MY VALUATION JOURNEY: HAVE FAITH, YOU MUST!

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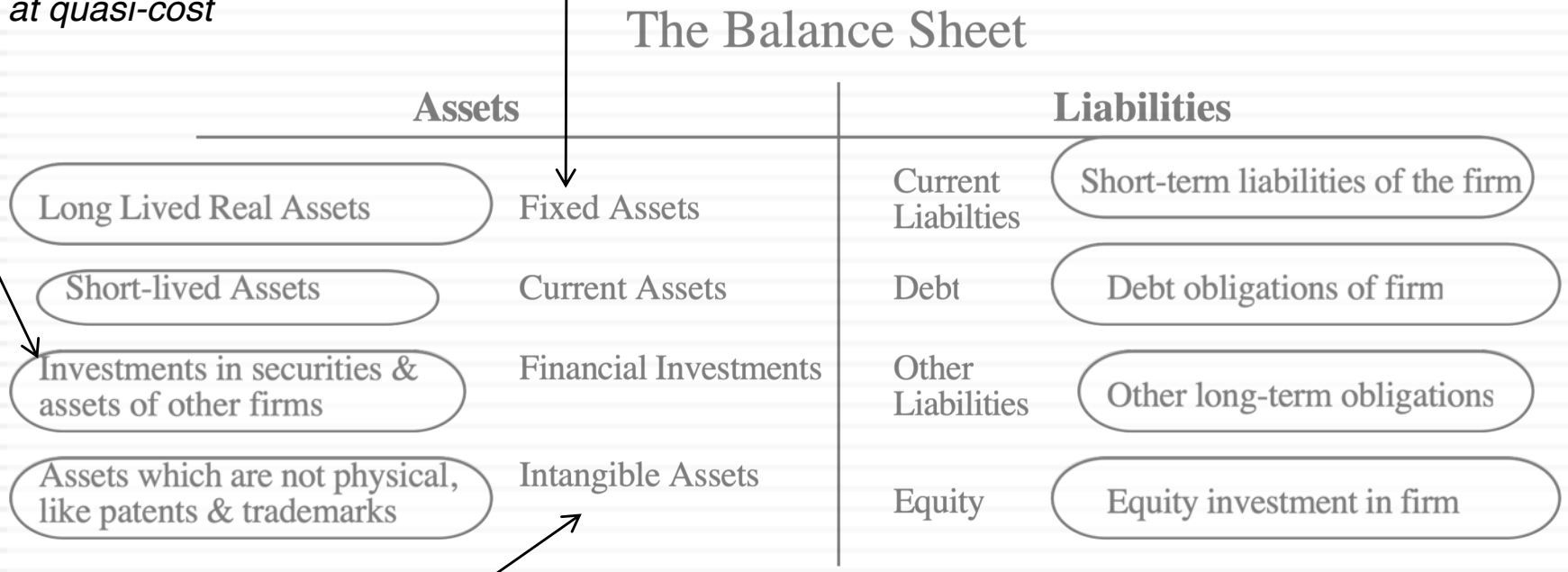
I. Don't mistake accounting for finance

Valued based upon motive for investment – some marked to market, some recorded at cost and some at quasi-cost

Assets are recorded at original cost, adjusted for depreciation.



True intangible assets like brand name, patents and customer did not show up. The only intangible asset of any magnitude (goodwill) is a plug variable that is of consequence only if you do an acquisition.

Equity reflects original capital invested and historical retained earnings.

The financial balance sheet

Recorded at intrinsic value (based upon cash flows and risk), not at original cost

Value will depend upon magnitude of growth investments and excess returns on these investments

Intrinsic value of equity, reflecting intrinsic value of assets, net of true value of debt outstanding.

And fair value accounting will not bridge the gap..

- In the last two decades, accounting has decided (for better or worse) that it can bridge the gap between the two balance sheets by
  - Marking up assets to fair value, though the accounting definition of value suggests that the rule writers are mixing up fair pricing with fair value.
  - Bringing "intangibles" on to the books, by trying to capitalize everything from brand name to customer lists.
- In my view, fair value accounting is an oxymoron, a hopeless attempt to bridge the difference that will do neither accounting nor valuation justice.

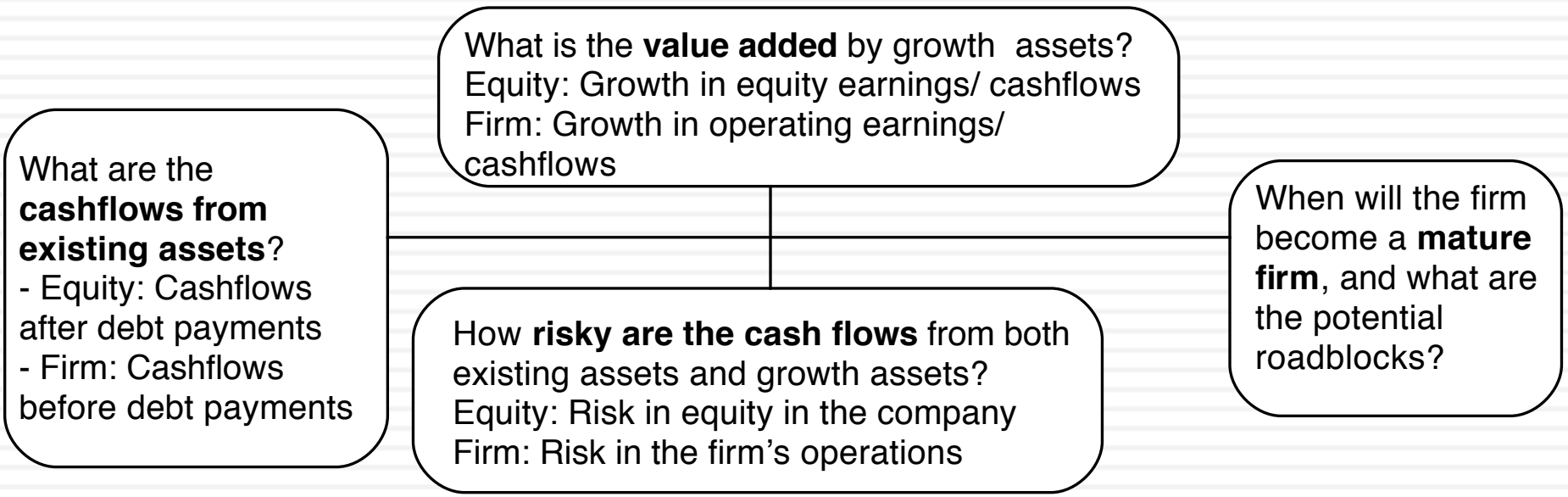
II. Don't assume that D+CF = DCF

- The value of a risky asset can be estimated by discounting the expected cash flows on the asset over its life at a risk-adjusted discount rate:

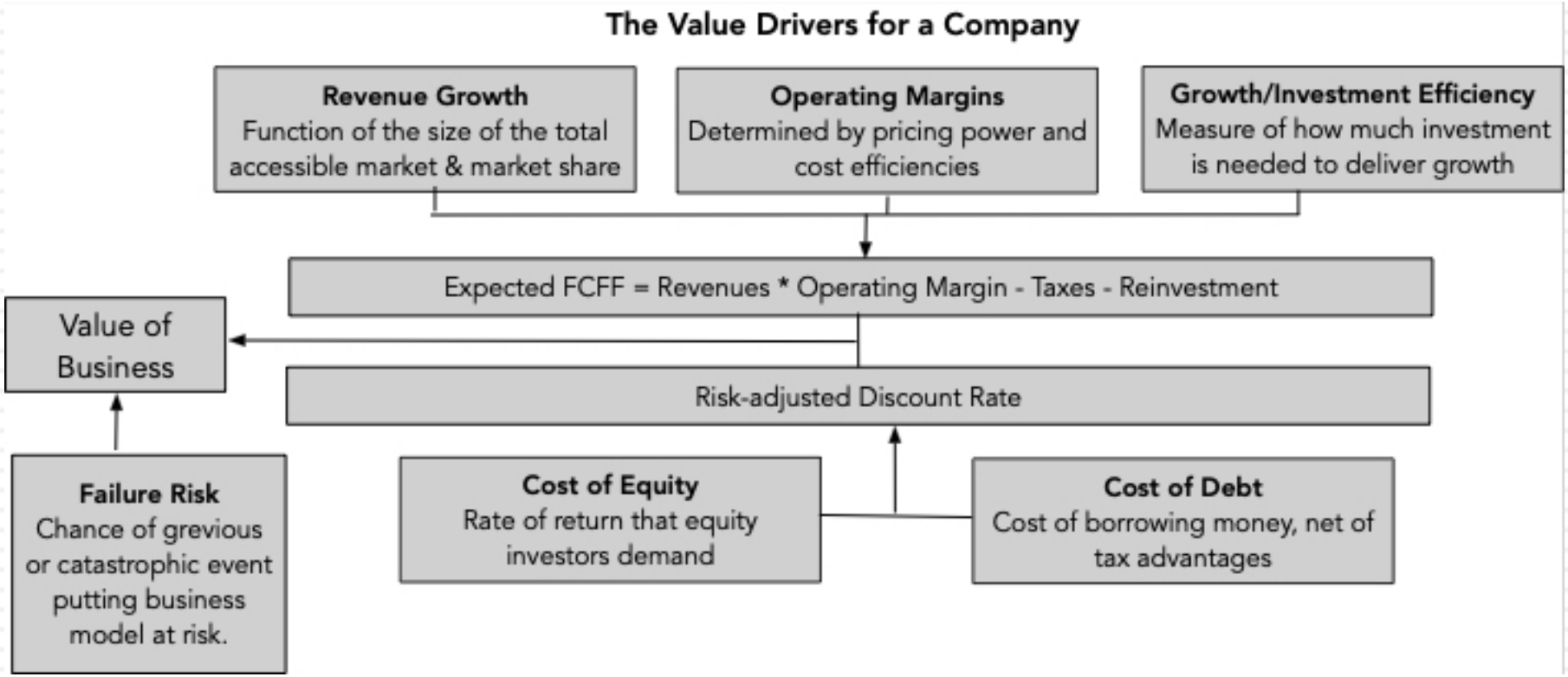
$$\text{Value of asset} = \frac{E(CF_1)}{(1+r)} + \frac{E(CF_2)}{(1+r)^2} + \frac{E(CF_3)}{(1+r)^3} \ldots\ldots + \frac{E(CF_n)}{(1+r)^n}$$

1. *The IT Proposition*: If "it" does not affect the cash flows or alter risk (thus changing discount rates), "it" cannot affect value.
2. *The DUH Proposition*: For an asset to have value, the expected cash flows have to be positive some time over the life of the asset.
3. *The DON'T FREAK OUT Proposition*: Assets that generate cash flows early in their life will be worth more than assets that generate cash flows later; the latter may however have greater growth and higher cash flows to compensate.

The Key Questions in valuation…



And Business Drivers that determine value…



DCF as a tool for intrinsic valuation

Value of growth
The future cash flows will reflect expectations of how quickly earnings will grow in the future (as a positive) and how much the company will have to reinvest to generate that growth (as a negative). The net effect will determine the value of growth.
Expected Cash Flow in year t = E(CF) = Expected Earnings in year t - Reinvestment needed for growth

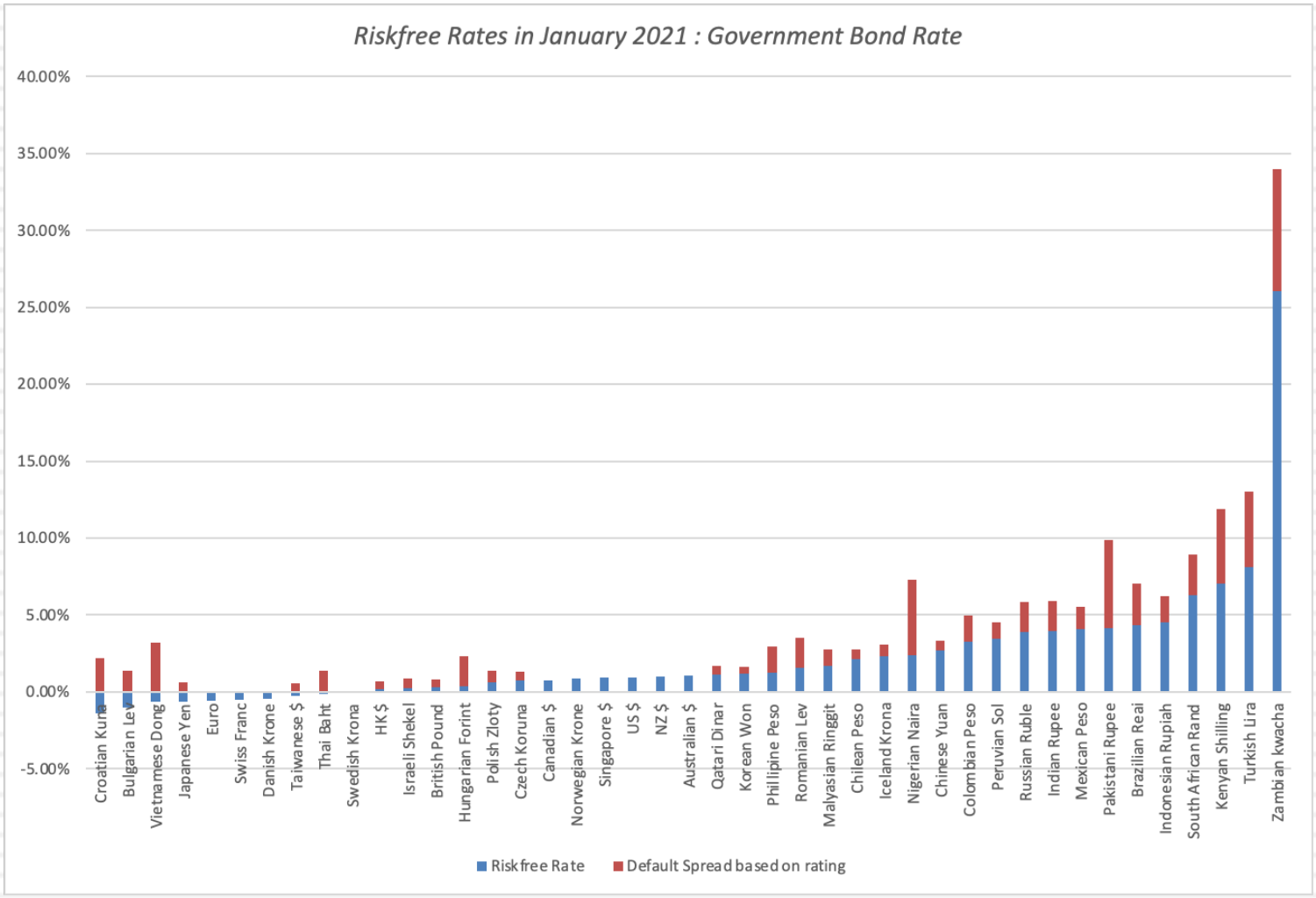
Cash flows from existing assets
The base earnings will reflect the earnings power of the existing assets of the firm, net of taxes and any reinvestment needed to sustain the base earnings.

$$\text{Value of asset} = \frac{E(CF_1)}{(1+r)} + \frac{E(CF_2)}{(1+r)^2} + \frac{E(CF_3)}{(1+r)^3} \ldots\ldots + \frac{E(CF_n)}{(1+r)^n}$$

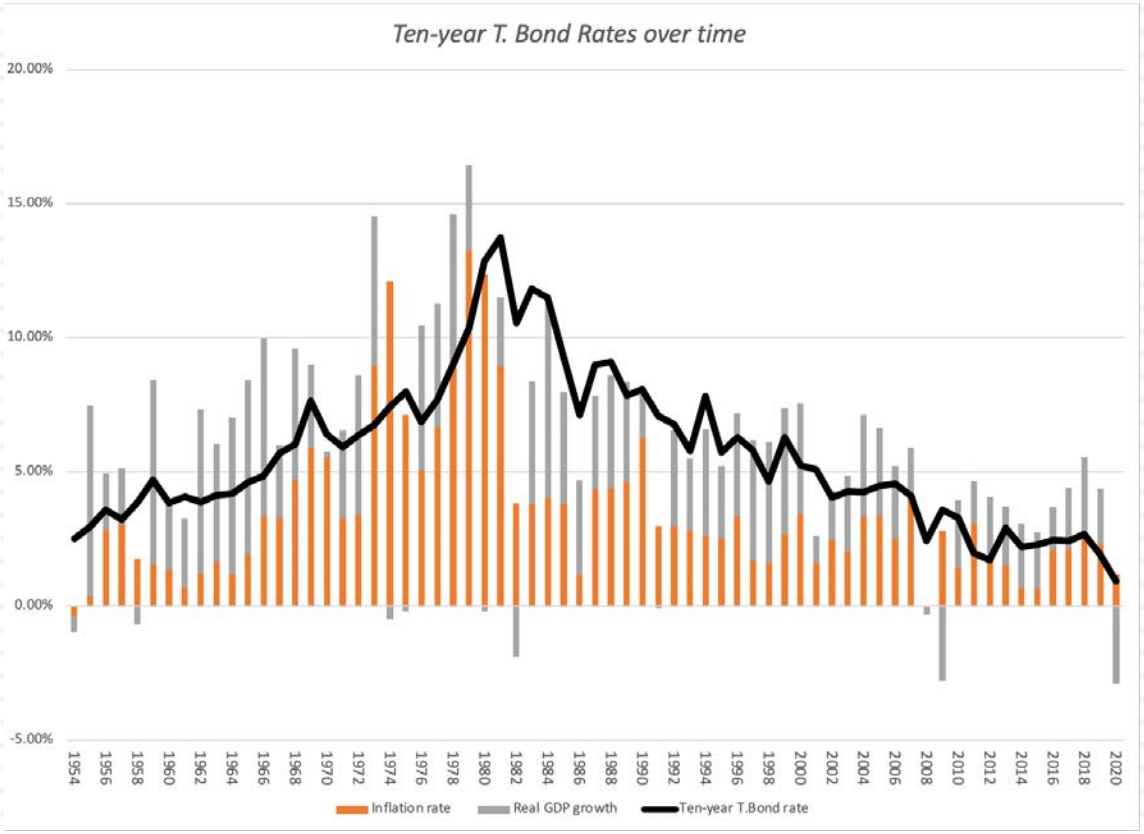
Steady state
The value of growth comes from the capacity to generate excess returns. The length of your growth period comes from the strength & sustainability of your competitive advantages.

Risk in the Cash flows
The risk in the investment is captured in the discount rate as a beta in the cost of equity and the default spread in the cost of debt.

1. Match your cash flows to your discount rates..



And the Fed is not the answer to every interest rate question..



Year end	Ten-year T.Bond rate	Inflation rate	Real GDP growth	Intrinsic riskfree rate	The Fed Effect
1954-2020	5.65%	3.50%	2.92%	6.42%	-0.78%
1954-1980	5.83%	4.49%	3.50%	7.98%	-2.15%
1981-2008	6.88%	3.26%	3.04%	6.30%	0.58%
2010-2020	2.25%	1.76%	1.74%	3.50%	-1.03%

Currencies don't drive value…

	In Rupees	In Dollars
Risk free Rate	5.38%	2.85%
Expected growth rate	10.00% for next 5 years, scaling down to 5.38% in year 10 (and forever)	7.37% for next 5 years, scaling down to 2.85% in year 10 (and forever)
Return on Capital	Marginal ROIC of 39.70%, scaling down to 15% forever	Marginal ROIC of 37.68%, scaling down to 12.36% forever.
Cost of capital	11.02% for next 5 years, scaling down to 9.88% in year 10 (and beyond)	8.36% for next 5 years, scaling down to 7.23% in year 10 (and beyond)
Value per share	Rs 1072.22 per share about 7% below stock price of Rs 1,150/share	$16.86 per share about 7% below stock price of $18.02/share

Heineken: September 2019 (in Euros)

Cash flows from existing assets

	LTM	2013-2018
Revenues	€ 23,119	Growth rate = 3.22%
Operating Margin	14.86%	14.44%
Sales/Invested Capital	0.71	0.79
ROIC	7.46%	8.32%
Effective Tax Rate	29.70%	27.00%

The Payoff from growth

Revenues will grow 3.22% a year for next 5 years, tapering down to -0.5% growth in year 10

Operatng margin (per-tax) will drop to 14.00%

Sales/Invested Capital will stay at five-year average of 0.79.

Maturty and Closure

Stable Growth
g = -0.5%;
Cost of capital = 5%
ROC= 5%;
Reinvestment Rate=-.5%/5% = -10%

Terminal Value = 2972/(.05-..-(.005)) = 54,034

Euro Cashflows

	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate	3.22%	3.22%	3.22%	3.22%	3.22%	2.48%	1.73%	0.99%	0.24%	-0.50%	-0.50%
Revenues	€ 23,863	€ 24,632	€ 25,425	€ 26,244	€ 27,089	€ 27,759	€ 28,240	€ 28,519	€ 28,589	€ 28,446	€ 28,304
EBIT (Operating) margin	14.38%	14.34%	14.30%	14.26%	14.21%	14.17%	14.13%	14.09%	14.04%	14.00%	14.00%
EBIT (Operating income)	€ 3,432	€ 3,532	€ 3,635	€ 3,741	€ 3,850	€ 3,934	€ 3,990	€ 4,017	€ 4,015	€ 3,982	$ 3,963
Tax rate	29.70%	29.70%	29.70%	29.70%	29.70%	28.76%	27.82%	26.88%	25.94%	25.00%	$ 0
EBIT(1-t)	€ 2,413	€ 2,483	€ 2,556	€ 2,630	€ 2,707	€ 2,802	€ 2,880	€ 2,937	€ 2,973	€ 2,987	$ 2,972
- Reinvestment	€ 942	€ 973	€ 1,004	€ 1,036	€ 1,070	€ 849	€ 609	€ 353	€ 88	€ (181)	$ (297)
FCFF	€ 1,471	€ 1,511	€ 1,552	€ 1,594	€ 1,637	€ 1,953	€ 2,271	€ 2,584	€ 2,885	€ 3,168	$ 3,269

PV(Terminal value)	€ 36,390.85
PV (CF over next 10 years)	€ 15,300.34
Value of operating assets =	€ 51,691.19
- Debt	€ 19,709.52
- Minority interests	€ 1,069.00
+ Cash	€ 1,751.60
+ Non-operating assets	€ 1,401.00
Value of equity	€ 34,065.26
Number of shares	571.10
Estimated value /share	€ 59.65
Price	€ 93.25
Price as % of value	56.33%

The Risk in the Cash flows

Discount at Euro Cost of Capital (WACC) = 7.66% (.599) + 1.13% (0.401) = 5.04%

On September 1, 2019, Heineken was trading at 93.25 Euros/share

Cost of Equity 7.66%

Cost of Debt (-0.5%+2%)(1-.25) = 1.13%

Weights E = 59.9% D = 40.1%

Riskfree Rate: Euro Risk free rate = -0.50%

\+

Beta = 1.20

X

Firm's D/E Ratio: 66.98%

Unlevered beta of alcoholic beverage business = 0.80

ERP = 6.83%

Region	Revenues	Weight	ERP
Europe	10348	50.24%	6.90%
North America	5920	28.74%	5.75%
Asia	2919	14.17%	7.22%
Latin America & Caribbean	781	3.79%	10.53%
Africa & Mid East	631	3.06%	9.30%
Total	**20599**	**100.00%**	**6.83%**

2. Risk is not in the past..

	Arithmetic Average		*Geometric Average*	
	Stocks - T. Bills	Stocks - T. Bonds	Stocks - T. Bills	Stocks - T. Bonds
1928-2020	8.28%	6.43%	6.47%	4.84%
Std Error	*2.06%*	*2.18%*		
1971-2020	7.67%	4.90%	6.35%	3.91%
Std Error	*2.38%*	*2.70%*		
2011-2020	13.83%	9.70%	13.24%	9.35%
Std Error	*3.88%*	*4.87%*		

- If you are going to use a historical risk premium, make it
  - Long term (because of the standard error)
  - Consistent with your risk free rate
  - A "compounded" average
- No matter which estimate you use, recognize that it is backward looking, is noisy and may reflect selection bias.

But in the future..

In 2020, COVID caused major drops in both earnings & cash return from 2019 levels

Expected earnings/cashflow growth in next 5 years
Earnings for next year based upon analyst estimates for 2021 and 10.15% growth in earnings from 2021-25, mostly a recovery from COVID drop in 2020.

Base year cash flow (last 12 mths)

Dividends (TTM):	58.89
+ Buybacks (TTM):	68.89
= Cash to investors (TTM):	**127.78**

Actual numbers | Forecasted numbers

	2019	*Last 12 months*	2021	2022	2023	2024	2025	*Terminal Year*
Expected Earnings	$ 163.00	$123.35	138.55	152.62	168.11	185.18	203.98	205.88
Expected cash payout as % of earnings	89.76%	103.59%	89.09%	90.21%	91.33%	92.46%	93.58%	93.58%
Expected Dividends + Buybacks =	$ 146.31	$127.78	$123.43	$137.67	$153.54	$171.21	$190.88	192.66

Earnings and Cash flows grow @0.93% (set equal to risk free rate) a year forever.

S&P 500 on 1/1/21= **3756.07**

$$3756.07 = \frac{123.43}{(1+r)} + \frac{137.67}{(1+r)^2} + \frac{153.54}{(1+r)^3} + \frac{171.21}{(1+r)^4} + \frac{190.88}{(1+r)^5} + \frac{190.88\,(1.0093)}{(r-.0093)(1+r)^5}$$

The last term in this equation is the expected index level at the end of year 5 (capturing price appreciation)

Solve for r

r = Implied Expected Return on Stocks = 5.65%

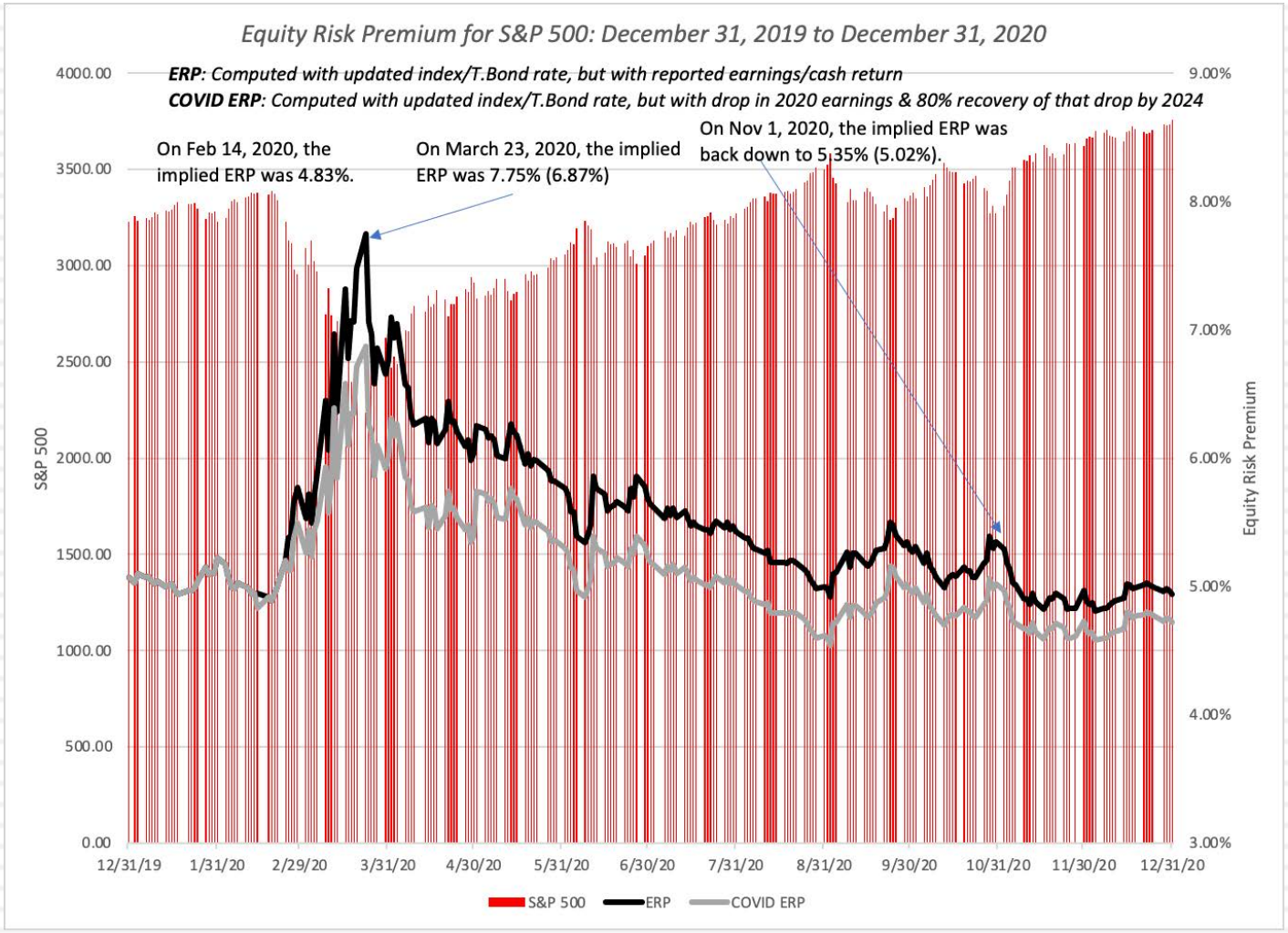
Minus

Risk free rate = T.Bond rate on 1/1/20= 0.93%

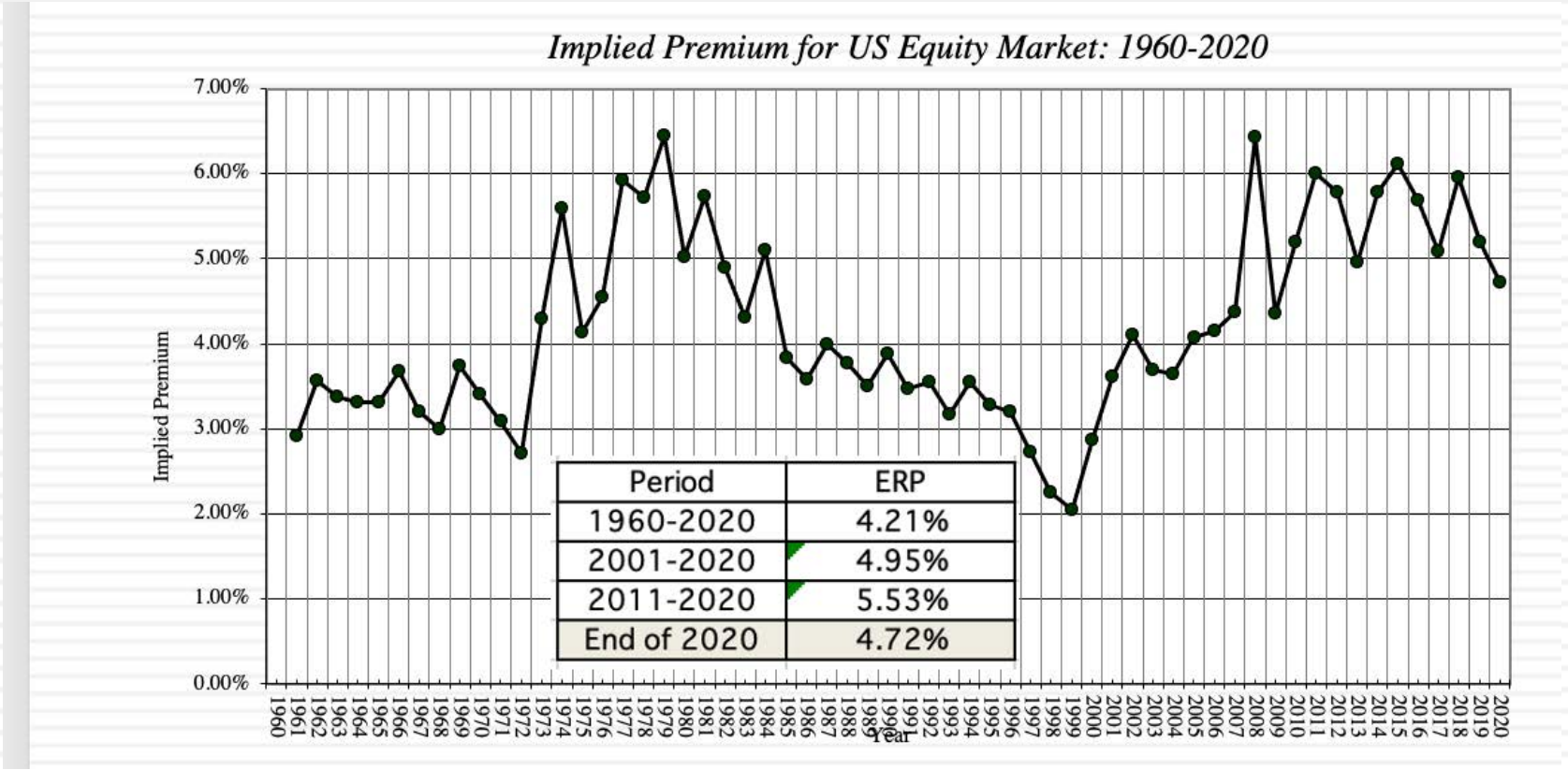
Equals

Implied Equity Risk Premium (1/1/21) = 5.65% - 0.93% = 4.72%

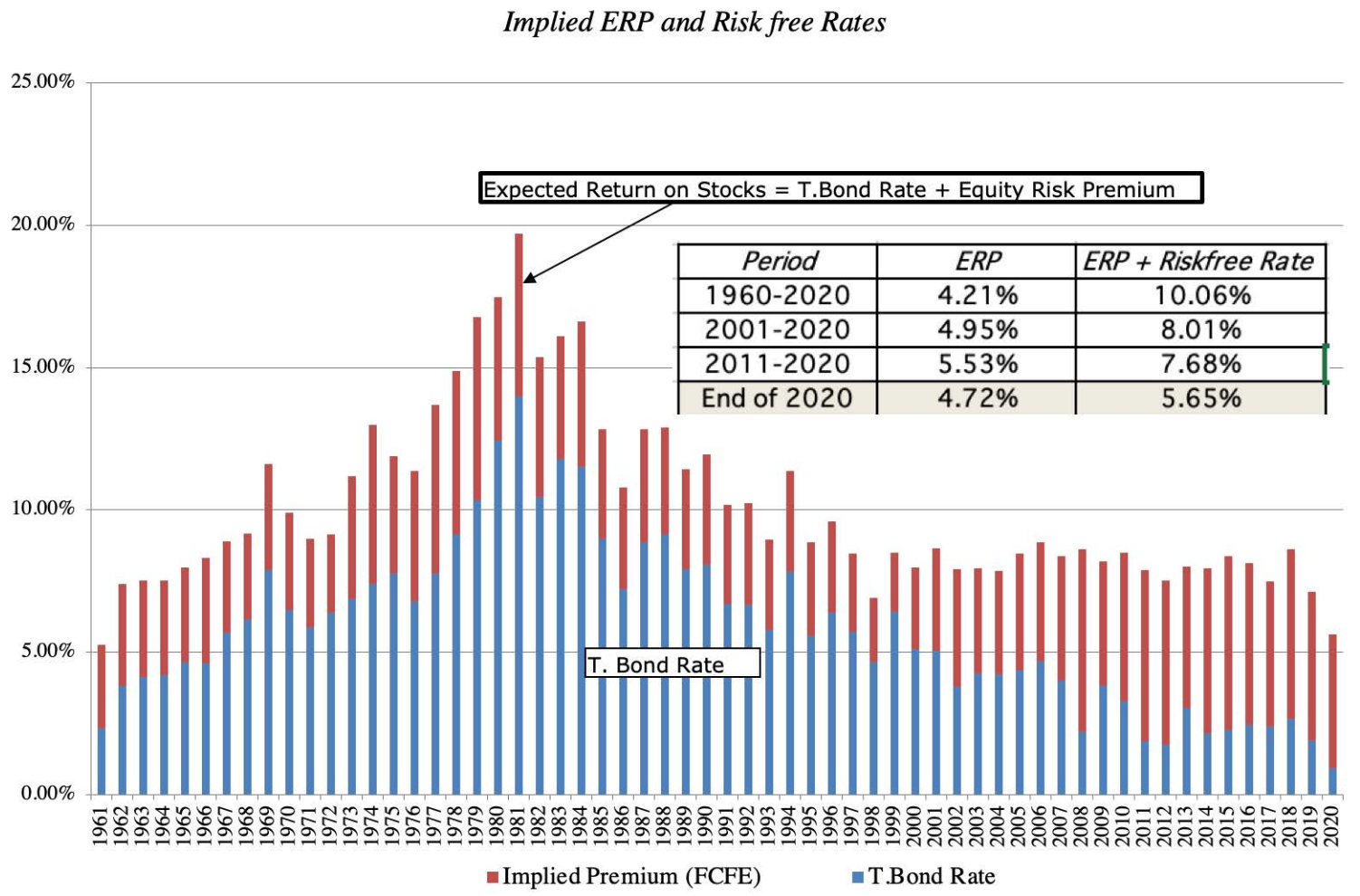
The Price of Risk: The COVID crisis



Comparison to History



But there is a catch…



Period	ERP	ERP + Riskfree Rate
1960-2020	4.21%	10.06%
2001-2020	4.95%	8.01%
2011-2020	5.53%	7.68%
End of 2020	4.72%	5.65%

To value the market…

- Earnings on the index: You cannot value a market based upon last year's earnings (though many do so). Investing is about the future, and uncomfortable as it makes you, you have to make estimates for the future. With an index like the S&P 500, you can even outsource these estimates, by looking at consensus forecasts from analysts tracking the index.
- Cash returned, relative to earnings: Since it is cash returned to stockholders that drives value, you also have to make judgments on what percent of earnings will be returned to stockholders, either in dividends or buybacks. To this, you can look to history, but recognize that it is also a function of the confidence that companies have about the future, with more confidence leading to higher cash being returned.
- Risk free rates over time: While it is generally not a good idea to play interest rate forecaster, we are in unusual times, especially because your views on future growth in the economy are intertwined with what will happen to risk free rates.
- An acceptable ERP: As I noted in the last section, equity risk premiums have been volatile over time, and particularly so in years in 2020. The equity risk premium, added to the risk free rate, will determine what you need stock returns to be, to break even on a risk-adjusted basis.

My S&P 500 valuation on Jan 1, 2021

Valuing the S&P 500 on January 1, 2021

Expected earnings in 2021 & 2022 represent consensus estimates for earnings on the S&P 500 from analysts. After 2022, earnings grow at the same rate as the riskfree rate.

Assume that the **10-year T.Bond rate** will rise garudally over the next 5 years to 2%.

Intrinsic Value Estimate (based on your choice of ERP)							
	2020	1	2	3	4	5	*Terminal Year*
Expected Earnings	$138.12	169.18	197.20	200.36	203.96	208.04	212.20
Expected cash payout as % of earnings	70.00%	75.00%	78.16%	81.33%	84.49%	87.65%	87.65%
Expected Dividends + Buybacks =	$96.68	$126.89	$154.14	$162.94	$172.33	$182.36	186.00
Expected Terminal Value =						$ 3,720.08	
Riskfree Rate	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.00%
Required Return on Stocks	6.00%	6.20%	6.40%	6.60%	6.80%	7.00%	7.00%
Present Value =		$ 119.48	$ 136.41	$ 135.27	$ 133.96	$ 2,835.03	
Intrinsic Value of Index =	**3360.14**	*Present value of expected cash flows & terminal value*					
Intrinsic Trailing PE =	**19.86**	*Based upon estimated earnings for 2020*					
Intrinsic CAPE =	**29.49**	*Based upon 10-year average earnings, adjusted for inflation*					
Level of the Index (1/1/21)	**3756.07**						
% Under or Over Valuation	**11.78%**						

Expected cash payout of 75% in 2021 is well below the 93% returned in 2019 & the 88% ten-year average but a step above the 70% returned in 2020. Over 2022-25, it moves to the payout in the terminal year, which is based upon a growth rate = risk freee rate and a ROE of 16.20% (2019 estimate for the S&P 500):

Payout ratio = 1 - g/ ROE

Required Return = T.Bond Rate + ERP. I am using a 5% ERP, higher than the 4.21% average from 1960-2020, but lower than the 5.5% average in the last decade.

3. Globalization is not a buzz word

- As companies get globalized, the valuations that we do have to reflect that globalization. In particular, we need to be wary of
  - Currency mismatches: Multinationals derive their revenues in many currencies but you have to be currency-consistent.
  - Beta gaming: When a company is listed in many markets, you can get very different betas, depending on how you set up and run a beta regression
  - Equity Risk Premiums: The standard practice of estimating equity risk premiums based on your country of incorporation will lead to skewed valuations.

ERP : Jan 2021

Andorra	Caa1	7.26%	11.98%	Italy	Baa3	2.13%	6.85%
Austria	Aa1	0.38%	5.10%	Jersey	Aaa	0.00%	4.72%
Belgium	Aa3	0.59%	5.31%	Liechtenstein	Aaa	0.00%	4.72%
Cyprus	Ba2	2.91%	7.63%	Luxembourg	Aaa	0.00%	4.72%
Denmark	Aaa	0.00%	4.72%	Malta	A2	0.82%	5.54%
Finland	Aa1	0.38%	5.10%	Netherlands	Aaa	0.00%	4.72%
France	Aa2	0.48%	5.20%	Norway	Aaa	0.00%	4.72%
Germany	Aaa	0.00%	4.72%	Portugal	Baa3	2.13%	6.85%
Greece	Ba3	3.49%	8.21%	Spain	Baa1	1.55%	6.27%
Guernsey	Aaa	0.00%	4.72%	Sweden	Aaa	0.00%	4.72%
Iceland	A2	0.82%	5.54%	Switzerland	Aaa	0.00%	4.72%
Ireland	A2	0.82%	5.54%	Turkey	B2	5.33%	10.05%
Isle of Man	Aa3	0.59%	5.31%	UK	Aa3	0.59%	5.31%
				Western Europe		**0.84%**	**5.56%**

Canada	Aaa	0.00%	4.72%
United States	Aaa	0.00%	4.72%
North America		**0.00%**	**4.72%**

Caribbean		**5.31%**	**10.03%**

Argentina	Ca	11.62%	16.34%
Belize	Caa3	9.68%	14.40%
Bolivia	B2	5.33%	10.05%
Brazil	Ba2	2.91%	7.63%
Chile	A1	0.68%	5.40%
Colombia	Baa2	1.84%	6.56%
Costa Rica	B2	5.33%	10.05%
Ecuador	Caa3	9.68%	14.40%
El Salvador	B3	6.30%	11.02%
Guatemala	Ba1	2.42%	7.14%
Honduras	B1	4.36%	9.08%
Mexico	Baa1	1.55%	6.27%
Nicaragua	B3	6.30%	11.02%
Panama	Baa1	1.55%	6.27%
Paraguay	Ba1	2.42%	7.14%
Peru	A3	1.16%	5.88%
Suriname	Caa3	9.68%	14.40%
Uruguay	B1	4.36%	9.08%
Venezuela	C	19.18%	23.90%
Latin America		**3.99%**	**8.71%**

Country	Rating	*CRP*	*ERP*
Angola	Caa1	7.26%	11.98%
Benin	B2	5.33%	10.05%
Botswana	A2	0.82%	5.54%
Burkina Faso	B2	5.33%	10.05%
Cameroon	B2	5.33%	10.05%
Cape Verde	B2	5.33%	10.05%
Congo (DR)	Caa1	7.26%	11.98%
Congo (Rep of)	Caa2	8.72%	13.44%
Côte d'Ivoire	Ba3	3.49%	8.21%
Egypt	B2	5.33%	10.05%
Ethiopia	B2	5.33%	10.05%
Gabon	Caa1	7.26%	11.98%
Ghana	B3	6.30%	11.02%
Kenya	B2	5.33%	10.05%
Mali	Caa1	7.26%	11.98%
Morocco	Ba1	2.42%	7.14%
Mozambique	Caa2	8.72%	13.44%
Namibia	Ba3	3.49%	8.21%
Niger	B3	6.30%	11.02%
Nigeria	B2	5.33%	10.05%
Rwanda	B2	5.33%	10.05%
Senegal	Ba3	3.49%	8.21%
South Africa	Ba2	2.91%	7.63%
Swaziland	B3	6.30%	11.02%
Tanzania	B2	5.33%	10.05%
Togo	B3	6.30%	11.02%
Tunisia	B2	5.33%	10.05%
Uganda	B2	5.33%	10.05%
Zambia	Ca	11.62%	16.34%
Africa		**4.94%**	**9.66%**

Albania	B1	4.36%	9.08%
Armenia	Ba3	3.49%	8.21%
Azerbaijan	Ba2	2.91%	7.63%
Belarus	B3	6.30%	11.02%
Bosnia & Herzegovina	B3	6.30%	11.02%
Bulgaria	Baa1	1.55%	6.27%
Croatia	Ba1	2.42%	7.14%
Czech Republic	Aa3	0.59%	5.31%
Estonia	A1	0.68%	5.40%
Georgia	Ba2	2.91%	7.63%
Hungary	Baa3	2.13%	6.85%
Kazakhstan	Baa3	2.13%	6.85%
Kyrgyzstan	B2	5.33%	10.05%
Latvia	A3	1.16%	5.88%
Lithuania	A3	1.16%	5.88%
Macedonia	Ba3	3.49%	8.21%
Moldova	B3	6.30%	11.02%
Montenegro	B1	4.36%	9.08%
Poland	A2	0.82%	5.54%
Romania	Baa3	2.13%	6.85%
Russia	Baa3	2.13%	6.85%
Serbia	Ba3	3.49%	8.21%
Slovakia	A2	0.82%	5.54%
Slovenia	A3	1.16%	5.88%
Tajikistan	B3	6.30%	11.02%
Ukraine	B3	6.30%	11.02%
Uzbekistan	Baa2	1.84%	6.56%
E. Europe & Russia		**2.08%**	**6.80%**

Abu Dhabi	Aa2	0.48%	5.20%
Bahrain	B2	5.33%	10.05%
Iraq	Caa1	7.26%	11.98%
Israel	A1	0.68%	5.40%
Jordan	B1	4.36%	9.08%
Kuwait	A1	0.68%	5.40%
Lebanon	C	19.18%	23.90%
Oman	Ba3	3.49%	8.21%
Qatar	Aa3	0.59%	5.31%
Ras Al Khaima	Aaa	0.00%	4.72%
Saudi Arabia	A1	0.68%	5.40%
Sharjah	Baa2	1.84%	6.56%
United Arab Emirates	Aa2	0.48%	5.20%
Middle East		**1.53%**	**6.25%**

Country	*PRS*	*CRP*	*ERP*
Algeria	57.25	8.72%	13.44%
Brunei	80	0.82%	5.54%
Gambia	63.75	6.30%	11.02%
Guinea	53.5	11.62%	16.34%
Guinea-Bissau	62	7.26%	11.98%
Guyana	65.75	5.33%	10.05%
Haiti	52.75	11.62%	16.34%
Iran	59.25	8.72%	13.44%
Korea, D.P.R.	50.75	11.62%	16.34%
Liberia	53.5	11.62%	16.34%
Libya	58.25	8.72%	13.44%
Madagascar	63.25	6.30%	11.02%
Malawi	58.75	8.72%	13.44%
Myanmar	63.75	6.30%	11.02%
Sierra Leone	58.75	8.72%	13.44%
Somalia	50.5	11.62%	16.34%
Sudan	38.25	19.18%	23.90%
Syria	47	19.18%	23.90%
Yemen, Republic	50	19.18%	23.90%
Zimbabwe	52.25	11.62%	16.34%

Bangladesh	Ba3	3.49%	8.21%
Cambodia	B2	5.33%	10.05%
China	A1	0.68%	5.40%
Fiji	Ba3	3.49%	8.21%
Hong Kong	Aa3	0.59%	5.31%
India	Baa3	2.13%	6.85%
Indonesia	Baa2	1.84%	6.56%
Japan	A1	0.68%	5.40%
Korea	Aa2	0.48%	5.20%
Laos	Caa2	8.72%	13.44%
Macao	Aa3	0.59%	5.31%
Malaysia	A3	1.16%	5.88%
Maldives	B3	6.30%	11.02%
Mauritius	Baa1	1.55%	6.27%
Mongolia	B3	6.30%	11.02%
Pakistan	B3	6.30%	11.02%
Papua New Guinea	B2	5.33%	10.05%
Philippines	Baa2	1.84%	6.56%
Singapore	Aaa	0.00%	4.72%
Solomon Islands	B3	6.30%	11.02%
Sri Lanka	Caa1	7.26%	11.98%
Taiwan	Aa3	0.59%	5.31%
Thailand	Baa1	1.55%	6.27%
Vietnam	Ba3	3.49%	8.21%

Australia	Aaa	0.00%	4.72%
Cook Islands	B1	4.36%	9.08%
New Zealand	Aaa	0.00%	4.72%
Australia & NZ		**0.00%**	**4.72%**

Blue: Moody's Rating
Red: Added Country Risk
Green #: Total ERP

And your country risk exposure comes from where you operate, not where you incorporate!

Region	*Revenues*	*ERP*	*Weight*	*Weighted ERP*
North America	₹ 42,408	5.08%	62.01%	3.1499%
Europe	₹ 15,302	6.01%	22.37%	1.3437%
Rest of the World	₹ 8,504	6.21%	12.43%	0.7721%
India	₹ 2,180	7.27%	3.19%	0.2317%
Total	₹ 68,394		100.00%	5.4974%

1. By focusing on revenues, are we misestimating country risk exposure?
2. As the company looks to grow in Latin America and Asia, how do you see this premium evolving?

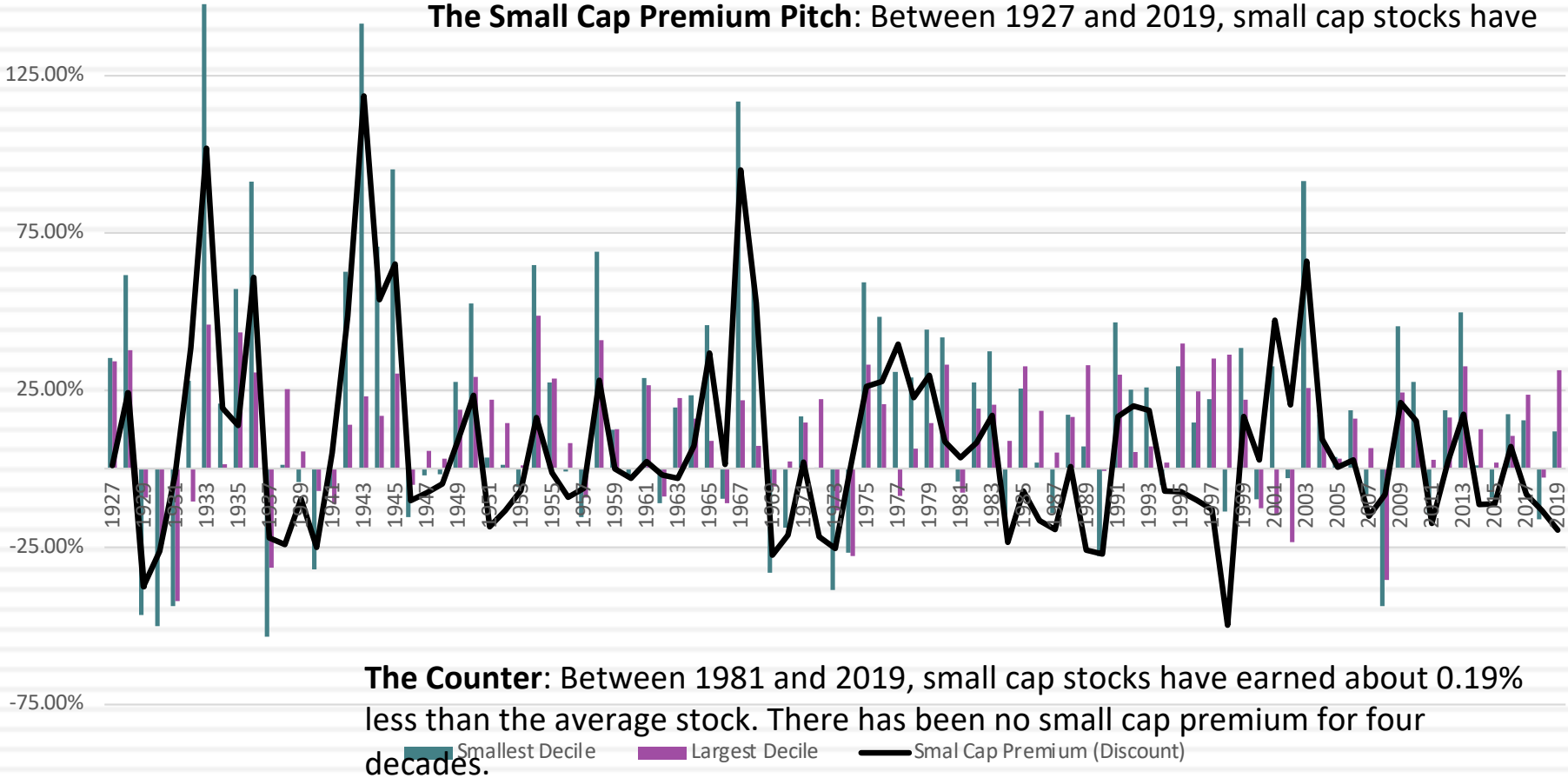
Shell: Equity Risk Premium- March 2016

Country	*Oil & Gas Production*	*% of Total*	*ERP*
Denmark	17396	3.83%	6.20%
Italy	11179	2.46%	9.14%
Norway	14337	3.16%	6.20%
UK	20762	4.57%	6.81%
Rest of Europe	*874*	*0.19%*	*7.40%*
Brunei	823	0.18%	9.04%
Iraq	20009	4.40%	11.37%
Malaysia	22980	5.06%	8.05%
Oman	78404	17.26%	7.29%
Russia	22016	4.85%	10.06%
Rest of Asia & ME	*24480*	*5.39%*	*7.74%*
Oceania	*7858*	*1.73%*	*6.20%*
Gabon	12472	2.75%	11.76%
Nigeria	67832	14.93%	11.76%
Rest of Africa	6159	1.36%	12.17%
USA	104263	22.95%	6.20%
Canada	8599	1.89%	6.20%
Brazil	13307	2.93%	9.60%
Rest of Latin America	*576*	*0.13%*	*10.78%*
Royal Dutch Shell	**454326**	**100.00%**	**8.26%**

4. Everyone may do it, but that does not make it right.. The small cap premium

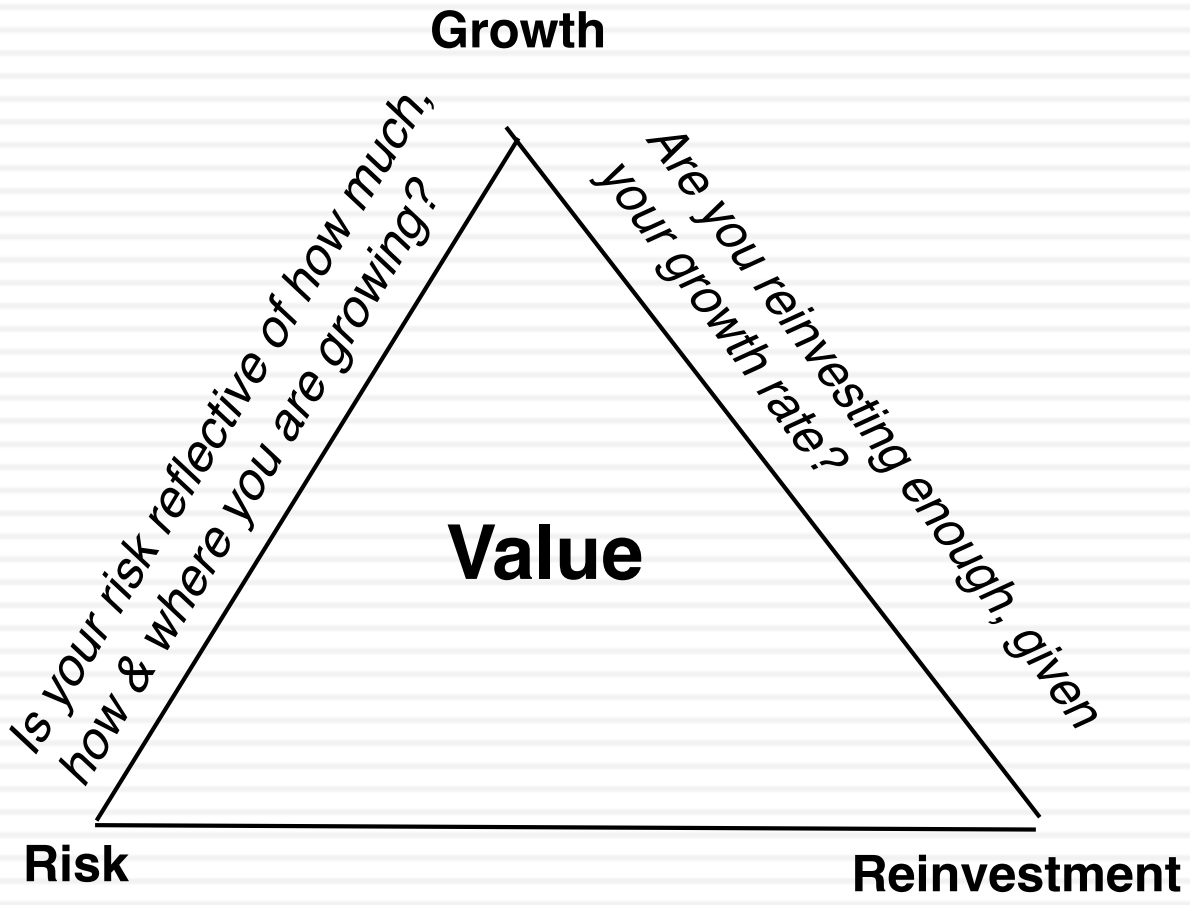
Figure 4: The Small Cap Premium from 1927 to 2019: Smallest versus Largest Deciles

The Small Cap Premium Pitch: Between 1927 and 2019, small cap stocks have



The Counter: Between 1981 and 2019, small cap stocks have earned about 0.19% less than the average stock. There has been no small cap premium for four decades.

5. Don’t let your inputs be at war with each other..



Is your risk consistent with your reinvestment strategy?

The Improbable: Willy Wonkitis

Tesla: Summary 15-year DCF Analysis (DCF valuation as of mid-year 2013)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Unit Volume	24,298	36,883	64,684	86,713	149,869	214,841	291,861	384,747	466,559	550,398	643,850	726,655	820,645	922,481	1,034,215	1,137,780
% Growth		*52%*	*75%*	*34%*	*73%*	*43%*	*36%*	*32%*	*21%*	*18%*	*17%*	*13%*	*13%*	*12%*	*12%*	*10%*
Automotive Revenue Per Unit ($)	93,403	85,342	83,432	78,932	65,465	58,258	56,407	55,553	55,991	56,586	56,969	57,540	58,138	58,603	59,002	59,554
% Growth		*-9%*	*-2%*	*-5%*	*-17%*	*-11%*	*-3%*	*-2%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Automotive Sales	2,462	3,321	5,613	7,051	10,025	12,720	16,685	21,595	26,347	31,357	36,897	42,022	47,949	54,283	61,221	67,980
Development Service Sales	16	40	42	44	46	49	51	54	56	59	62	65	68	72	75	79
Total Sales	**2,478**	**3,361**	**5,655**	**7,095**	**10,072**	**12,768**	**16,736**	**21,648**	**26,403**	**31,416**	**36,959**	**42,087**	**48,017**	**54,355**	**61,296**	**68,059**
% Growth		*36%*	*68%*	*25%*	*42%*	*27%*	*31%*	*29%*	*22%*	*19%*	*18%*	*14%*	*14%*	*13%*	*13%*	*11%*
EBITDA	**148**	**417**	**920**	**1,042**	**1,586**	**2,150**	**3,138**	**4,066**	**4,857**	**5,723**	**6,328**	**7,182**	**8,144**	**9,688**	**10,874**	**12,099**
% Margin	*6.0%*	*12.4%*	*16.3%*	*14.7%*	*15.7%*	*16.8%*	*18.7%*	*18.8%*	*18.4%*	*18.2%*	*17.1%*	*17.1%*	*17.0%*	*17.8%*	*17.7%*	*17.8%*
D&A	103	158	172	203	301	353	389	537	606	696	811	938	1,088	1,260	1,451	1,661
% of Capex	*41%*	*79%*	*55%*	*65%*	*62%*	*69%*	*78%*	*86%*	*79%*	*77%*	*75%*	*76%*	*76%*	*76%*	*76%*	*77%*
EBIT	**45**	**259**	**748**	**839**	**1,285**	**1,796**	**2,749**	**3,529**	**4,252**	**5,027**	**5,517**	**6,244**	**7,056**	**8,429**	**9,423**	**10,439**
% Margin	*1.8%*	*7.7%*	*13.2%*	*11.8%*	*12.8%*	*14.1%*	*16.4%*	*16.3%*	*16.1%*	*16.0%*	*14.9%*	*14.8%*	*14.7%*	*15.5%*	*15.4%*	*15.3%*
Net Interest Income (Expense)	(27)	(1)	9	33	47	90	108	155	199	278	358	445	542	651	784	934
Other Income	28	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Income	**46**	**258**	**758**	**872**	**1,332**	**1,886**	**2,857**	**3,684**	**4,451**	**5,305**	**5,875**	**6,688**	**7,598**	**9,080**	**10,207**	**11,373**
Income Taxes	3	2	14	34	86	262	462	641	807	1,003	1,134	1,317	1,470	1,761	2,028	2,323
% Effective Rate	*6%*	*1%*	*2%*	*4%*	*6%*	*14%*	*16%*	*17%*	*18%*	*19%*	*19%*	*20%*	*19%*	*19%*	*20%*	*20%*
Net Income	**44**	**256**	**744**	**839**	**1,246**	**1,624**	**2,395**	**3,043**	**3,644**	**4,303**	**4,741**	**5,372**	**6,128**	**7,319**	**8,179**	**9,050**
Plus																
After-tax Interest Expense (Income)	27	1	(9)	(33)	(47)	(90)	(108)	(154)	(199)	(278)	(357)	(444)	(541)	(650)	(782)	(932)
Depreciation of PP&E	103	158	172	203	301	353	389	537	606	696	811	938	1,088	1,260	1,451	1,661
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Less																
Change in Working Capital	(155)	(14)	(157)	(167)	(172)	(325)	(163)	(81)	(28)	(299)	(356)	(328)	(219)	(329)	(365)	(376)
% of Change in Sales		*-2%*	*-7%*	*-12%*	*-6%*	*-12%*	*-4%*	*-2%*	*-1%*	*-6%*	*-6%*	*-6%*	*-4%*	*-5%*	*-5%*	*-6%*
Capital Expenditures	250	200	312	312	486	510	497	623	765	906	1,078	1,236	1,437	1,660	1,898	2,149
% of Sales	*10%*	*6%*	*6%*	*4%*	*5%*	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unlevered Free Cash Flow	**78**	**229**	**750**	**863**	**1,186**	**1,702**	**2,343**	**2,884**	**3,314**	**4,113**	**4,472**	**4,959**	**5,456**	**6,597**	**7,315**	**8,005**

EBITDA	12,099
Sales	68,059
Net Debt (Cash)	(260)
Tesla Diluted Shares	142

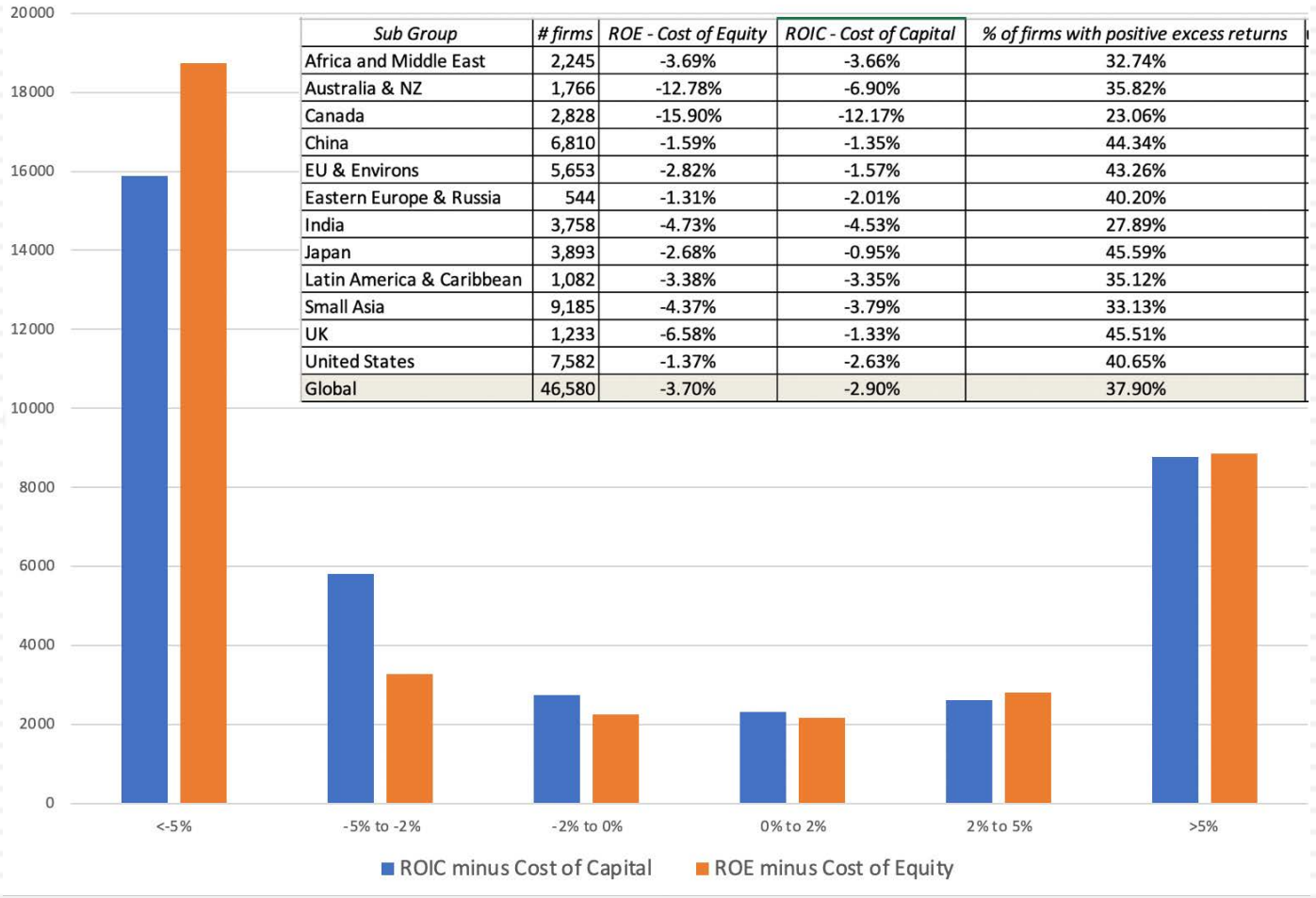
Exit EBITDA High	12.0 x	Exit PPG High	5.0%	Exit P/Sales High	180%
Exit EBITDA Low	8.0 x	Exit PPG Low	3.0%	Exit P/Sales Low	130%

Discount Rate High	13.0%	FY Month of Valuation	1.0 (Beginning of this Month)
Discount Rage Low	9.0%	Month of FY End	12.0 (End of this Month)

And consider the trade offs in 2020..

Return Spreads in 2020: Global Breakdown

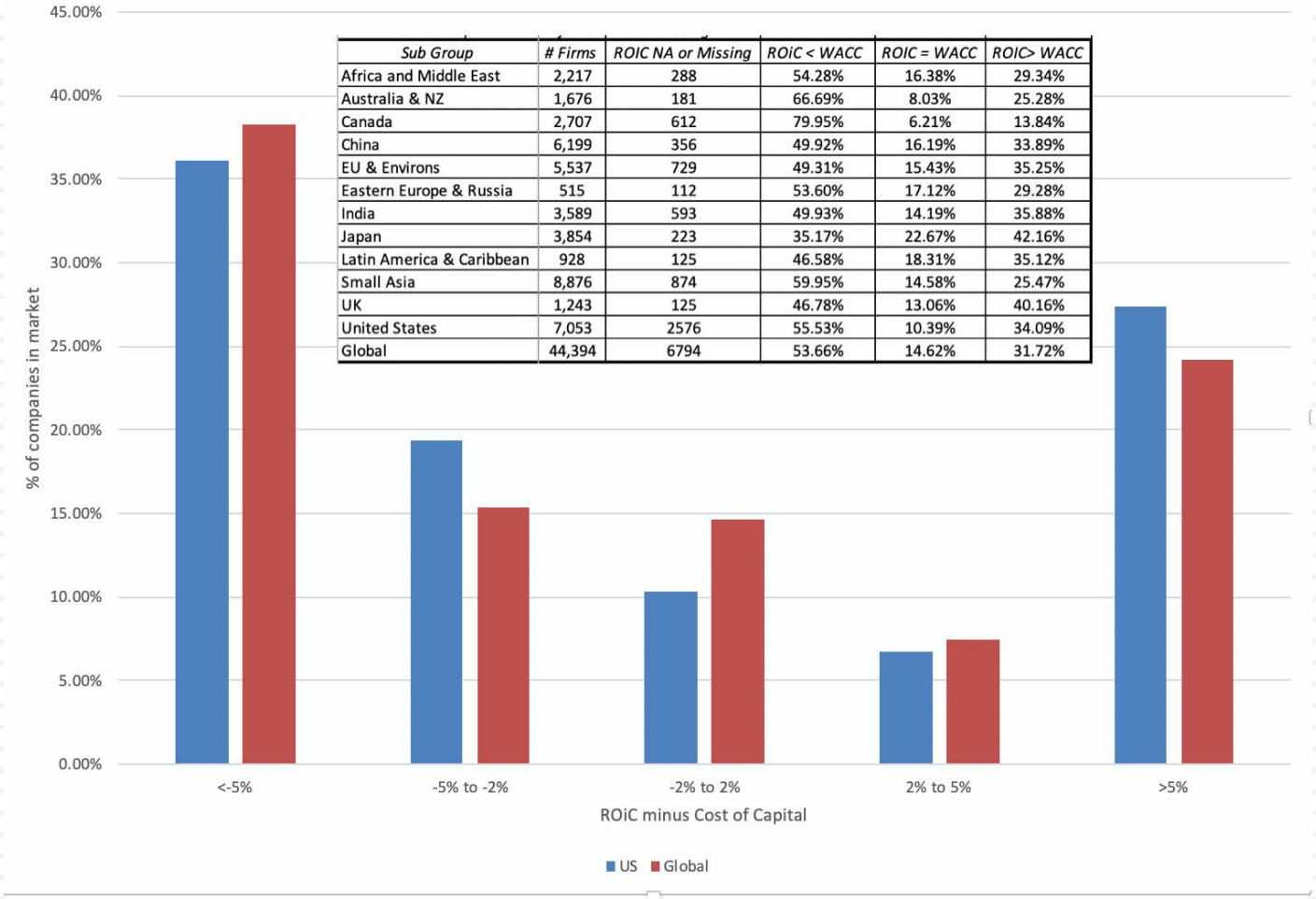
Sub Group	# firms	ROE - Cost of Equity	ROIC - Cost of Capital	% of firms with positive excess returns
Africa and Middle East	2,245	-3.69%	-3.66%	32.74%
Australia & NZ	1,766	-12.78%	-6.90%	35.82%
Canada	2,828	-15.90%	-12.17%	23.06%
China	6,810	-1.59%	-1.35%	44.34%
EU & Environs	5,653	-2.82%	-1.57%	43.26%
Eastern Europe & Russia	544	-1.31%	-2.01%	40.20%
India	3,758	-4.73%	-4.53%	27.89%
Japan	3,893	-2.68%	-0.95%	45.59%
Latin America & Caribbean	1,082	-3.38%	-3.35%	35.12%
Small Asia	9,185	-4.37%	-3.79%	33.13%
UK	1,233	-6.58%	-1.33%	45.51%
United States	7,582	-1.37%	-2.63%	40.65%
Global	46,580	-3.70%	-2.90%	37.90%



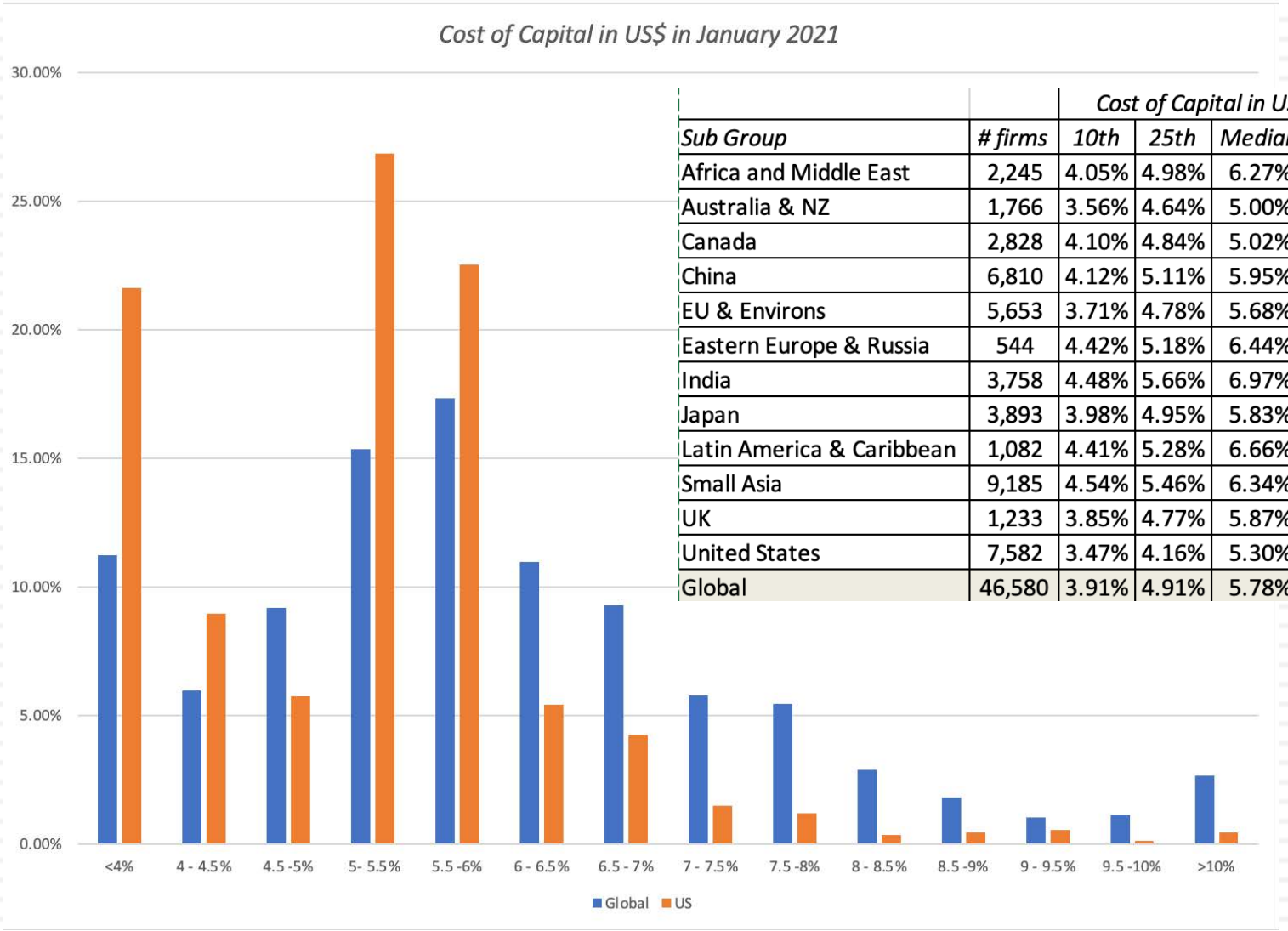
And don't blame COVID…

ROIC minus Cost of Capital: Start of 2020, using Trailing 12 month data

Sub Group	# Firms	ROIC NA or Missing	ROiC < WACC	ROIC = WACC	ROIC> WACC
Africa and Middle East	2,217	288	54.28%	16.38%	29.34%
Australia & NZ	1,676	181	66.69%	8.03%	25.28%
Canada	2,707	612	79.95%	6.21%	13.84%
China	6,199	356	49.92%	16.19%	33.89%
EU & Environs	5,537	729	49.31%	15.43%	35.25%
Eastern Europe & Russia	515	112	53.60%	17.12%	29.28%
India	3,589	593	49.93%	14.19%	35.88%
Japan	3,854	223	35.17%	22.67%	42.16%
Latin America & Caribbean	928	125	46.58%	18.31%	35.12%
Small Asia	8,876	874	59.95%	14.58%	25.47%
UK	1,243	125	46.78%	13.06%	40.16%
United States	7,053	2576	55.53%	10.39%	34.09%
Global	44,394	6794	53.66%	14.62%	31.72%



6. Don’t sweat the small stuff



		Cost of Capital in US$: Percentiles				
Sub Group	*# firms*	*10th*	*25th*	*Median*	*75th*	*90th*
Africa and Middle East	2,245	4.05%	4.98%	6.27%	8.01%	10.14%
Australia & NZ	1,766	3.56%	4.64%	5.00%	5.33%	5.93%
Canada	2,828	4.10%	4.84%	5.02%	5.35%	5.98%
China	6,810	4.12%	5.11%	5.95%	6.64%	7.60%
EU & Environs	5,653	3.71%	4.78%	5.68%	6.72%	8.28%
Eastern Europe & Russia	544	4.42%	5.18%	6.44%	7.67%	8.71%
India	3,758	4.48%	5.66%	6.97%	7.69%	8.25%
Japan	3,893	3.98%	4.95%	5.83%	6.44%	7.03%
Latin America & Caribbean	1,082	4.41%	5.28%	6.66%	8.29%	10.92%
Small Asia	9,185	4.54%	5.46%	6.34%	7.51%	8.94%
UK	1,233	3.85%	4.77%	5.87%	6.37%	6.81%
United States	7,582	3.47%	4.16%	5.30%	5.73%	6.32%
Global	46,580	3.91%	4.91%	5.78%	6.73%	7.90%

7. Don't let your terminal value run away with your valuation

- In the terminal value equation, the growth seems to be the magic input, the key driver of value.

$$Terminal\ Value_n = \frac{Free\ Cash\ Flow_{n+1}}{(r-g)}$$

- Since that growth rate has to be maintained in perpetuity, it cannot exceed the growth rate of the economy in which you operate:
  - If your valuation is in nominal terms, it is the nominal growth rate of the economy. If it is is real terms, it is the real growth rate.
  - If your company is purely domestic, it is the growth rate of the domestic economy. If it is global, it is the global economy.

Four simple truths about terminal value..

1. It is not the most influential number in your valuation (even though it is usually the biggest).
   - The lead in assumptions that get you to your terminal year are more critical than what you assume in your terminal year.
   - In your terminal year, you are constrained in what you can assume will happen forever.
2. You have more flexibility to bring in company differences into your terminal value than you realize:
   - You don't have to assume a perpetuity (it can be an annuity)
   - Your growth rate in perpetuity can be negative.
3. There are no rules (none) on what percent of a good DCF comes from your terminal value. It can be 50%, 75%, 100% or even 150%.
   - The percent of your current value that comes from your terminal value will reflect where your company is in the life cycle.
   - It is a reflection of how you expect to make money on that company, as an equity investor.
4. Your company in your terminal year may have the same name as your company today, but it will be a very different company in terms of its fundamentals (risk, cash flows, accounting returns) than it is today.

My Simple Proxy: The Risk free Rate

- I use a simpler and more easily observable number as **a cap** on stable growth: the risk free rate that I have used in the valuation. This takes into account the currency automatically (since higher inflation currencies have higher risk free rates) and it is not unreasonable to argue that it is a good proxy for the nominal growth rate in the economy.
- There are three reasons I do it:
  - The best predictor nominal growth in the US economy at the start of every decade has been the US treasury bond rate at the time.
  - It preserves consistency. If you believe, as many have, that the risk free rate is too low in US $ or Euros, it compensates for the resulting too-low cost of capital by also capping the growth rate at the same number (at least in terminal value).
  - It puts a control on my biases.

A Consistent Version of Terminal Value

- The terminal value equation can be restated:

$$\text{Terminal Value in year n} = \frac{EBIT_{n+1}\ (1-t)(1-\frac{g}{ROC})}{(\text{Cost of Capital} - g)}$$

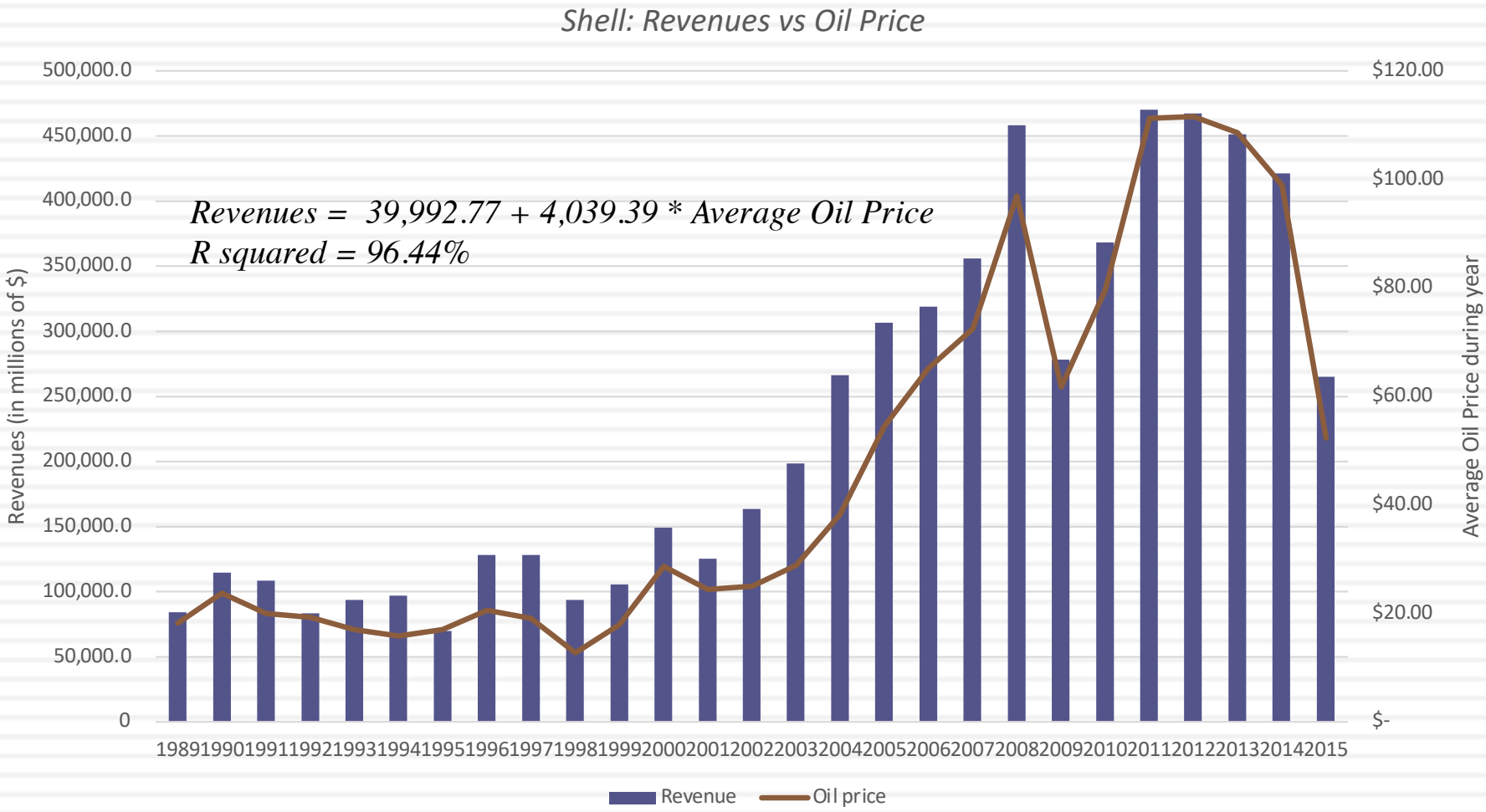
Terminal Value for a firm with $100 million in after-tax operating income & cost of capital = 10% (for different g and ROIC)

		Return on capital in perpetuity				
		6%	8%	10%	12%	14%
Growth rate forever	0.00%	$1,000	$1,000	$1,000	$1,000	$1,000
	0.50%	$965	$987	$1,000	$1,009	$1,015
	1.00%	$926	$972	$1,000	$1,019	$1,032
	1.50%	$882	$956	$1,000	$1,029	$1,050
	2.00%	$833	$938	$1,000	$1,042	$1,071
	2.50%	$778	$917	$1,000	$1,056	$1,095
	3.00%	$714	$893	$1,000	$1,071	$1,122

8. Don't let your macro views drown out your micro views..

- When you are asked to value a company, you should keep your focus on what drives that value. If you bring in your specific macro views into the valuation, the value that you obtain for a company will be a joint result of what you think about the company and your macro views.
- **Bottom line**: If you have macro views, provide them separately. You should be as macro-neutral as you can be, in your company valuations.
- **Follow up**: If you find macro risk dominating your thoughts, deal with it frontally.

The biggest driver for Shell (and no surprise) is..



Valuing Shell at April 2016 oil price ($40)

Revenue calculated from prevailing oil price of $40/barrel in March 2016
Revenue = 39992.77+4039.40*$40
= $201,569

Compounded revenue growth of 3.91% a year, based on Shell's historical revenue growth rate from 2000 to 2015

	Base Year	1	2	3	4	5	Terminal Year
Revenues	$ 201,569	$ 209,450	$ 217,639	$ 226,149	$ 234,991	$ 244,180	$ 249,063
Operating Margin	3.01%	6.18%	7.76%	8.56%	8.95%	9.35%	9.35%
Operating Income	$ 6,065.00	$ 12,942.85	$ 16,899.10	$ 19,352.39	$ 21,040.39	$ 22,830.80	$ 23,287.41
Effective tax rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
AT Operating Income	$ 4,245.50	$ 9,060.00	$ 11,829.37	$ 13,546.68	$ 14,728.27	$ 15,981.56	$ 16,301.19
+ Depreciation	$ 26,714.00	$ 27,759	$ 28,844	$ 29,972	$ 31,144	$ 32,361	
- Cap Ex	$ 31,854.00	$ 33,099	$ 34,394	$ 35,738	$ 37,136	$ 38,588	
- Chg in WC		$ 472.88	$ 491.37	$ 510.58	$ 530.55	$ 551.29	
FCFF		$ 3,246.14	$ 5,788.19	$ 7,269.29	$ 8,205.44	$ 9,203.68	$ 13,011.34
Terminal Value						$ 216,855.71	
Return on capital							12.37%
Cost of Capital		9.91%	9.91%	9.91%	9.91%	9.91%	8.00%
Cumulated Discount Factor		1.0991	1.2080	1.3277	1.4593	1.6039	
Present Value		$ 2,953.45	$ 4,791.47	$ 5,474.95	$ 5,622.81	$ 140,940.73	
Value of Operating Assets	$ 159,783.41						
+ Cash	$ 31,752.00						
+ Cross Holdings	$ 33,566.00						
- Debt	$ 58,379.00						
- Minority Interets	$ 1,245.00						
Value of Equity	$ 165,477.41						
Number of shares	4209.7						
Value per share	$ 39.31						

Added long term investments in joint ventures and subtracted out minority interest in consolidated holdings.

Operating margin converges on Shell's historical average margin of 9.35% from 200-2015

Return on capital reverts and stays at Shell's historic average of 12.37% from 200-2015

Infosys: March 2018 (in Rupees)

Cash flows from existing assets

	LTM	2011-2017	Industry (US data)
Revenue growth =	3.28%	14.22%	15.31%
Pre-tax operating margin =	24.29%	26.16%	8.35%
Sales to capital ratio =	1.81	2.50	3.69
Return on invested capital =	31.57%	47.80%	27.96%

The Payoff from growth

Revenues will grow 10% a year for next 5 years, tapering down to 5.38% growth in year 10

Operatng margin (per-tax) will continue to decline from 24.29% to 23%

Sales/Invested Capital will stay at ten-year average of 1.81

Maturty and Closure

Stable Growth
g = 5.38%;
Cost of capital = 9.88%
ROC= 15%;
Reinvestment Rate=g/ROC
= 5.83%/15.00%= 35.87%

Terminal Value = 169,632/(.0988-..0538) = 3,769,597

Rupee Cashflows

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate		10.00%	10.00%	10.00%	10.00%	10.00%	9.08%	8.15%	7.23%	6.30%	5.38%	5.38%
Revenues	₹ 683,119	₹ 751,431	₹ 826,574	₹ 909,231	₹ 1,000,155	₹ 1,100,170	₹ 1,200,021	₹ 1,297,847	₹ 1,391,656	₹ 1,479,386	₹ 1,558,976	₹ 1,642,849
EBIT (Operating) margin	24.29%	24.16%	24.03%	23.90%	23.78%	23.65%	23.52%	23.39%	23.26%	23.13%	23.00%	23.00%
EBIT (Operating income)	₹ 165,945	₹ 181,568	₹ 198,657	₹ 217,348	₹ 237,790	₹ 260,148	₹ 282,208	₹ 303,536	₹ 323,678	₹ 342,170	₹ 358,565	₹ 377,855
Tax rate	28.00%	28.00%	28.00%	28.00%	28.00%	28.00%	28.40%	28.80%	29.20%	29.60%	30.00%	30.00%
EBIT(1-t)	₹ 119,480	₹ 130,729	₹ 143,033	₹ 156,491	₹ 171,209	₹ 187,306	₹ 202,061	₹ 216,118	₹ 229,164	₹ 240,888	₹ 250,995	₹ 264,499
- Reinvestment		₹ 37,842	₹ 41,626	₹ 45,789	₹ 50,368	₹ 55,404	₹ 55,313	₹ 54,191	₹ 51,966	₹ 48,599	₹ 44,090	₹ 94,867
FCFF		₹ 92,887	₹ 101,407	₹ 110,702	₹ 120,841	₹ 131,902	₹ 146,747	₹ 161,927	₹ 177,198	₹ 192,289	₹ 206,905	₹ 169,632
Cost of capital		11.02%	11.02%	11.02%	11.02%	11.02%	10.80%	10.57%	10.34%	10.11%	9.88%	
Cumulated discount factor		0.9007	0.8113	0.7307	0.6581	0.5928	0.5350	0.4839	0.4386	0.3983	0.3625	
PV(FCFF)		₹ 83,664	₹ 82,268	₹ 80,890	₹ 79,531	₹ 78,190	₹ 78,514	₹ 78,356	₹ 77,712	₹ 76,588	₹ 74,999	

PV(Terminal value)	₹	1,366,411
PV (CF over next 10 years)	₹	790,711
Value of operating assets =	₹	2,157,122
- Debt	₹	-
- Minority interests	₹	-
+ Cash	₹	230,727
+ Non-operating assets	₹	61,081
Value of equity	₹	2,448,930
- Value of options	₹	945
Value of equity in common stock	₹	2,447,985
Number of shares	₹	2,283
Estimated value /share	₹	**1,072.22**

Discount at Rs Cost of Capital (WACC) = 11.02% (.100) = 11.02%

The Risk in the Cash flows

On March 27, 2018, Infosys was trading at Rs 1150/ share

Cost of Equity 11.02%

Cost of Debt
NO DEBT

Weights
E = 100% D = 0%

Riskfree Rate:
Rupee Risk free Rate =
7.33% - 1.95% = 5.38%

\+

Beta = 1.03

X

Firm's D/E Ratio: 0%

Business	Revenues	EV/Sales	Estimated Value	Value Weight	Unlevered Beta
Computer Software	₹ 2,101	6.3640	₹ 13,371	13.51%	1.1114
Computer Services	₹ 66,383	1.2899	₹ 85,630	86.49%	1.0136
Company	**₹ 68,484**		**₹ 99,001**		**1.0268**

ERP = 5.50%

Region	Revenues	ERP	Weight	Weighted ERP
North America	₹ 42,408	5.08%	62.01%	3.1499%
Europe	₹ 15,302	6.01%	22.37%	1.3437%
Rest of the World	₹ 8,504	6.21%	12.43%	0.7721%
India	₹ 2,180	7.27%	3.19%	0.2317%
Total	**₹ 68,394**		**100.00%**	**5.4974%**

The **Chimera DCF** mixes dollar cash flows with peso discount rates, nominal cash flows with real costs of capital and cash flows before debt payments with costs of equity, violating basic consistency rules

In a **Dreamstate DCF**, you build amazing companies on spreadsheets, making outlandish assumptions about growth and operating margins over time.

In a **Dissonant DCF**, assumptions about growth, risk and cash flows are not consistent with each other, with little or no explanation given for the mismatch.

In a **Trojan Horse DCF**, Just as the Greeks used a wooden horse to smuggle soldiers into Troy, analysts use the Trojan Horse of cash flows to smuggle in a pricing (in the form of a terminal value, estimated by using a multiple).

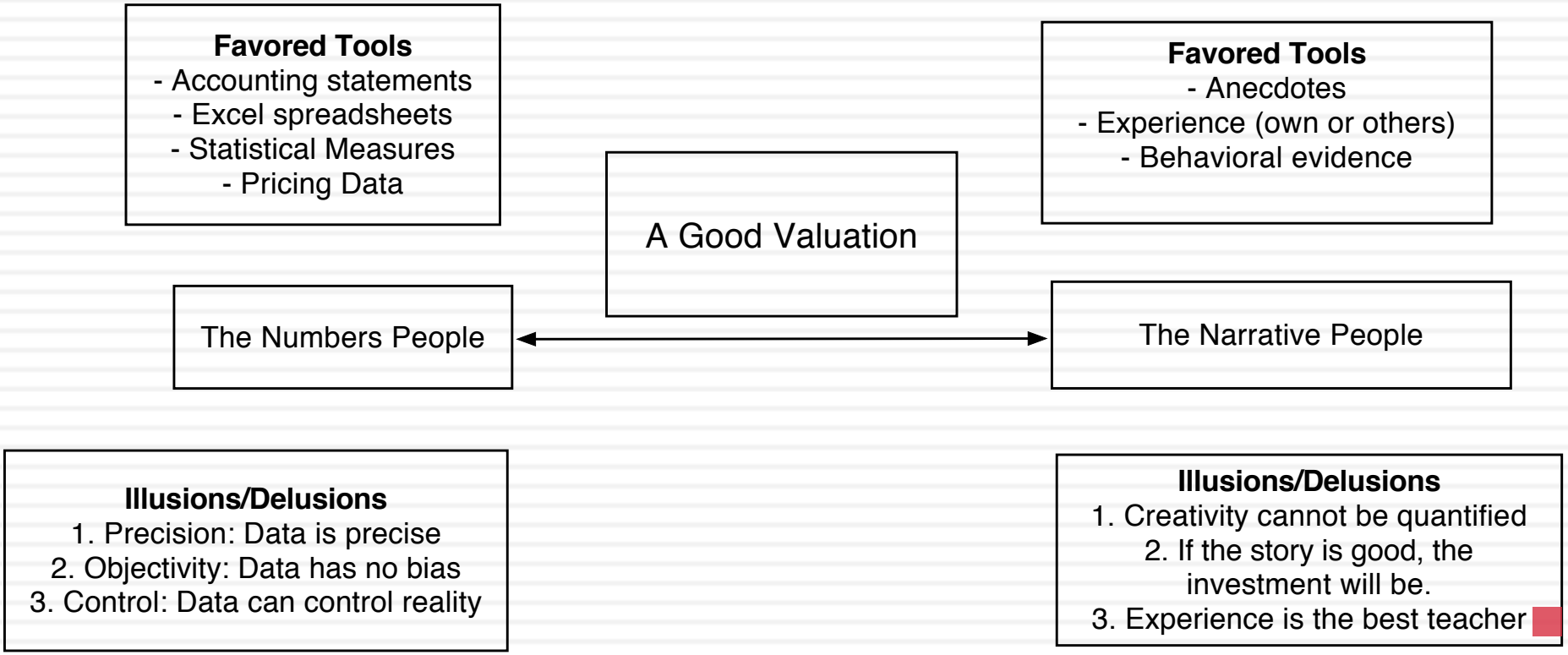
A **Kabuki DCF** is a work of art, where analyst and rule maker (or court) go through the motions of valuation, with the intent of developing models that are legally or accounting-rule defensible rather than yielding reasonable values.

D+CF ≠ DCF

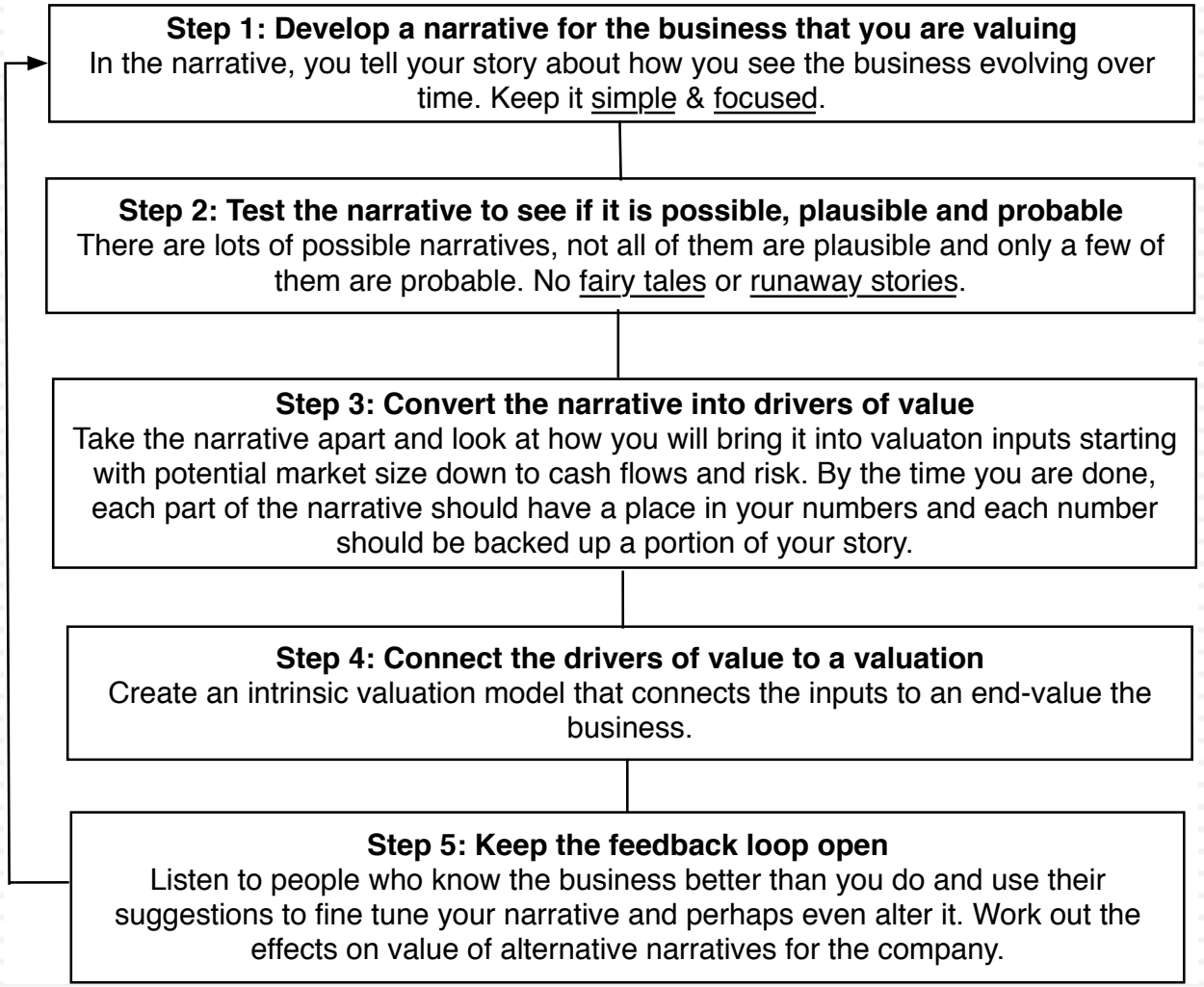
In a **Robo DCF**, the analyst builds a valuation almost entirely from the most recent financial statements and automated forecasts.

A **Mutant DCF** is a collection of numbers where items have familiar names (free cash flow, cost of capital) but the analyst putting it together has neither a narrative nor a sense of the basic principles of

III. Don't mistake modeling for valuation



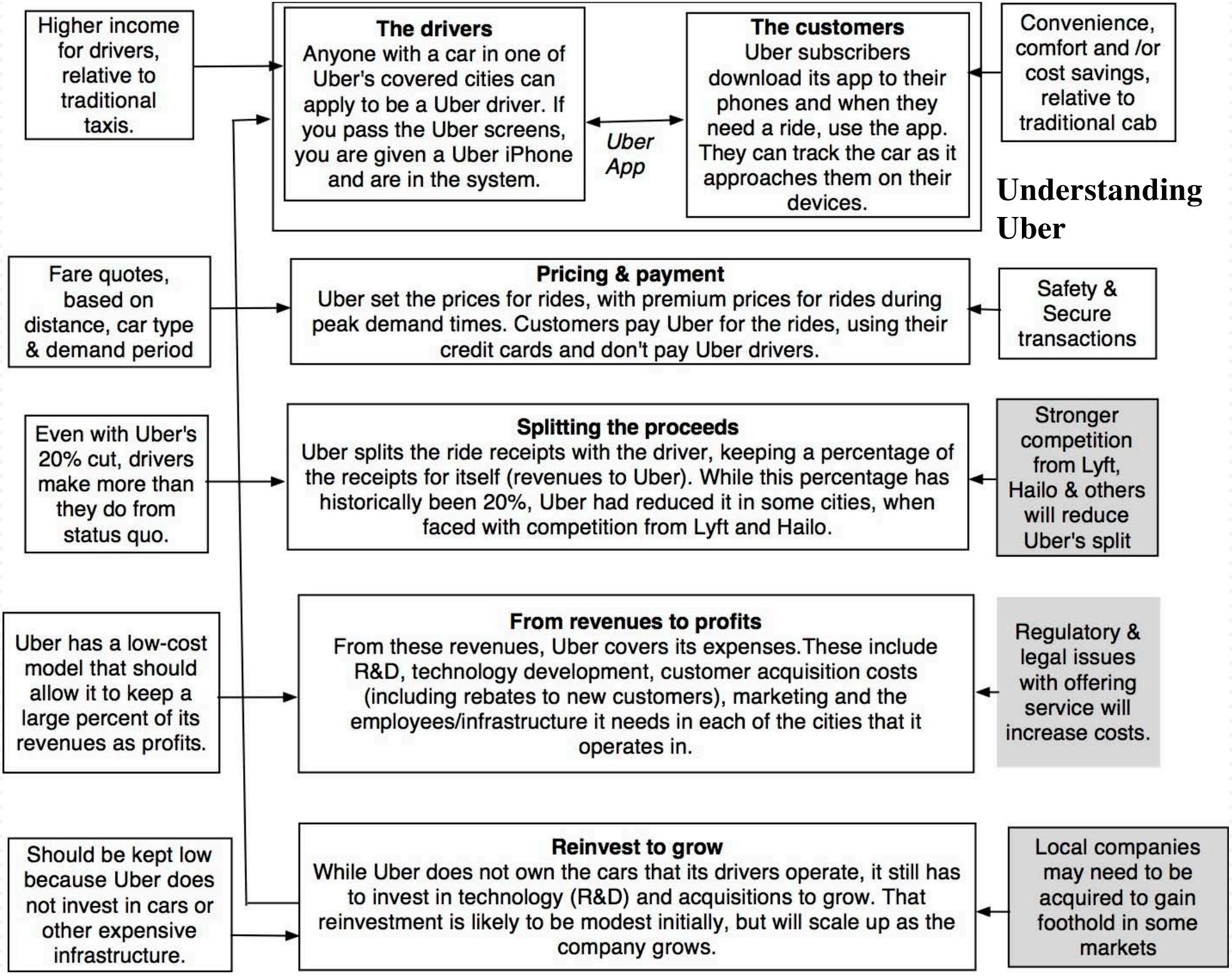
From story to numbers and beyond..



Step Zero: Survey the landscape

- Every valuation starts with a narrative, a story that you see unfolding for your company in the future.
- In developing this narrative, you will be making assessments of
  - Your company (its products, its management and its history.
  - The market or markets that you see it growing in.
  - The competition it faces and will face.
  - The macro environment in which it operates.

Understanding Uber



Step 1: Create a narrative for the future

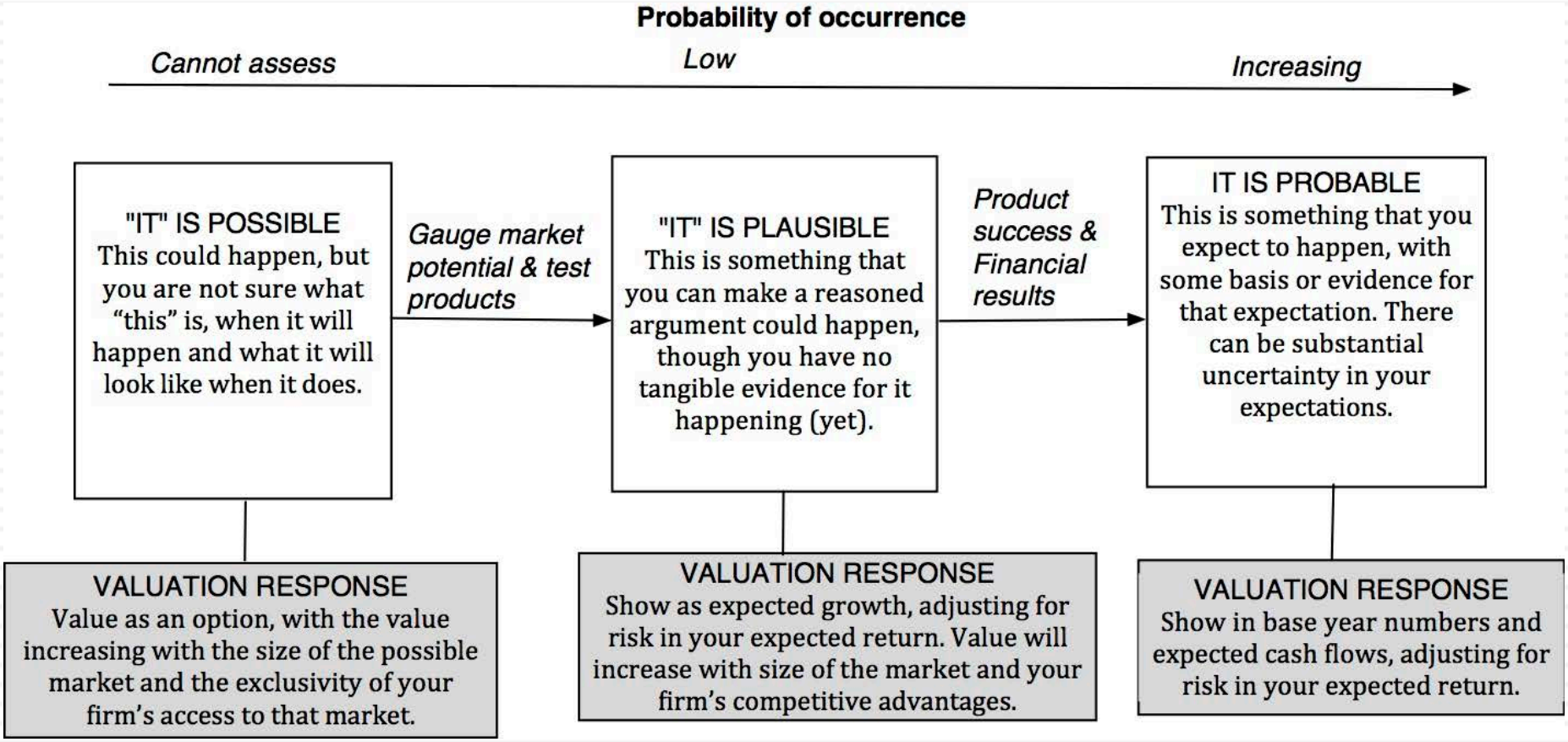
- Every valuation starts with a narrative, a story that you see unfolding for your company in the future.
- In developing this narrative, you will be making assessments of your company (its products, its management), the market or markets that you see it growing in, the competition it faces and will face and the macro environment in which it operates.
  - Rule 1: Keep it simple.
  - Rule 2: Keep it focused.

The Uber Narrative

In June 2014, my initial narrative for Uber was that it would be

1. An urban car service business: I saw Uber primarily as a force in urban areas and only in the car service business.
2. Which would expand the business moderately (about 40% over ten years) by bringing in new users.
3. With local networking benefits: If Uber becomes large enough in any city, it will quickly become larger, but that will be of little help when it enters a new city.
4. Maintain its revenue sharing (20%) system due to strong competitive advantages (from being a first mover).
5. And its existing low-capital business model, with drivers as contractors and very little investment in infrastructure.

Step 2: Check the narrative against history, economic first principles & common sense



The Impossible, The Implausible and the Improbable

The Impossible

Bigger than the economy
Assuming Growth rate for company in perpetuity> Growth rate for economy

Bigger than the total market
Allowing a company's revenues to grow so much that it has more than a 100% market share of whatever business it is in.

Profit margin > 100%
Assuming earnings growth will exceeds revenue growth for a long enough period, and pushing margins above 100%

Depreciation without cap ex
Assuming that depreciation will exceed cap ex in perpetuity.

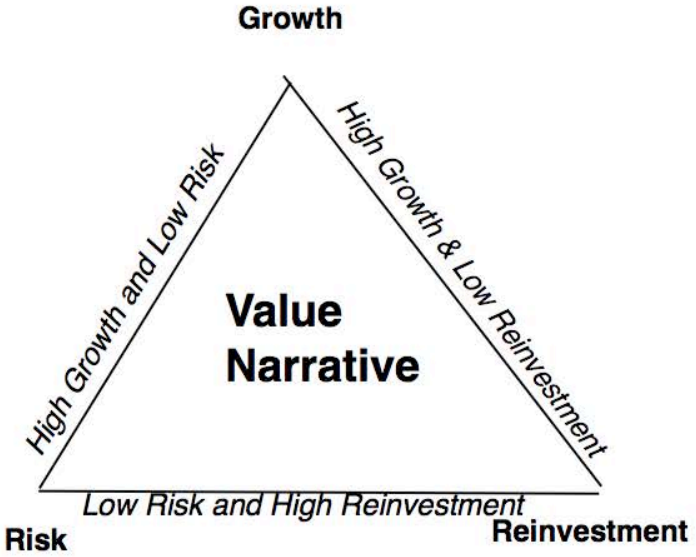
The Implausible

Growth without reinvestment
Assuming growth forever without reinvestment.

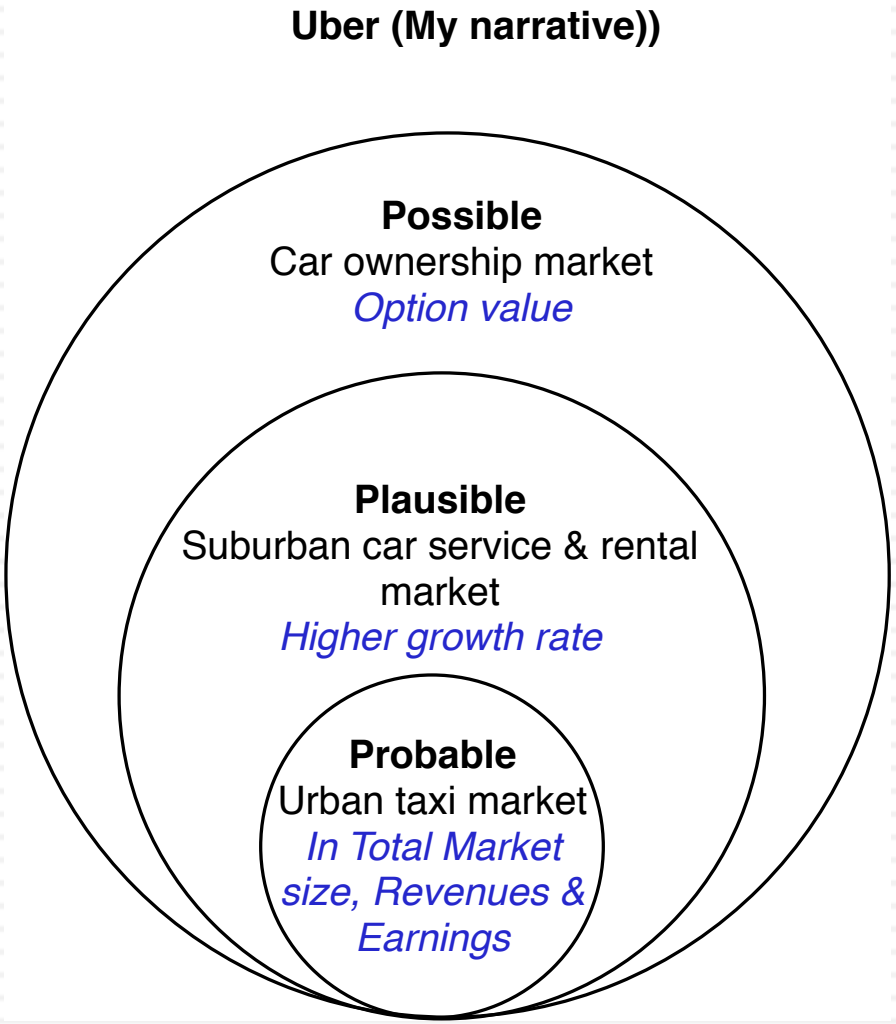
Profits without competition
Assuming that your company will grow and earn higher profits, with no competition.

Returns without risk
Assuming that you can generate high returns in a business with no risk.

The Improbable



Uber: Possible, Plausible and Probable



The Impossible: The Runaway Story

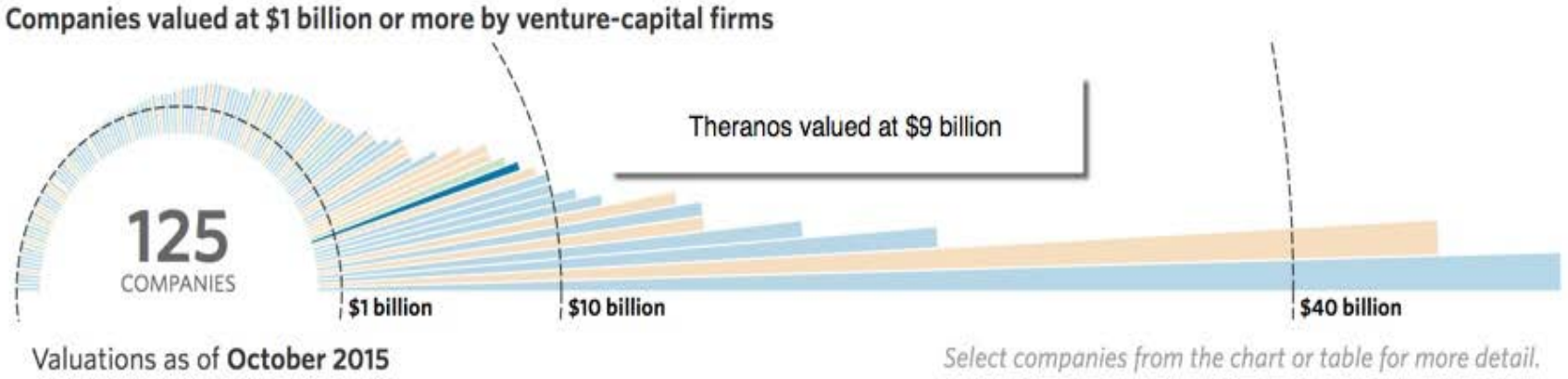
The Story

+

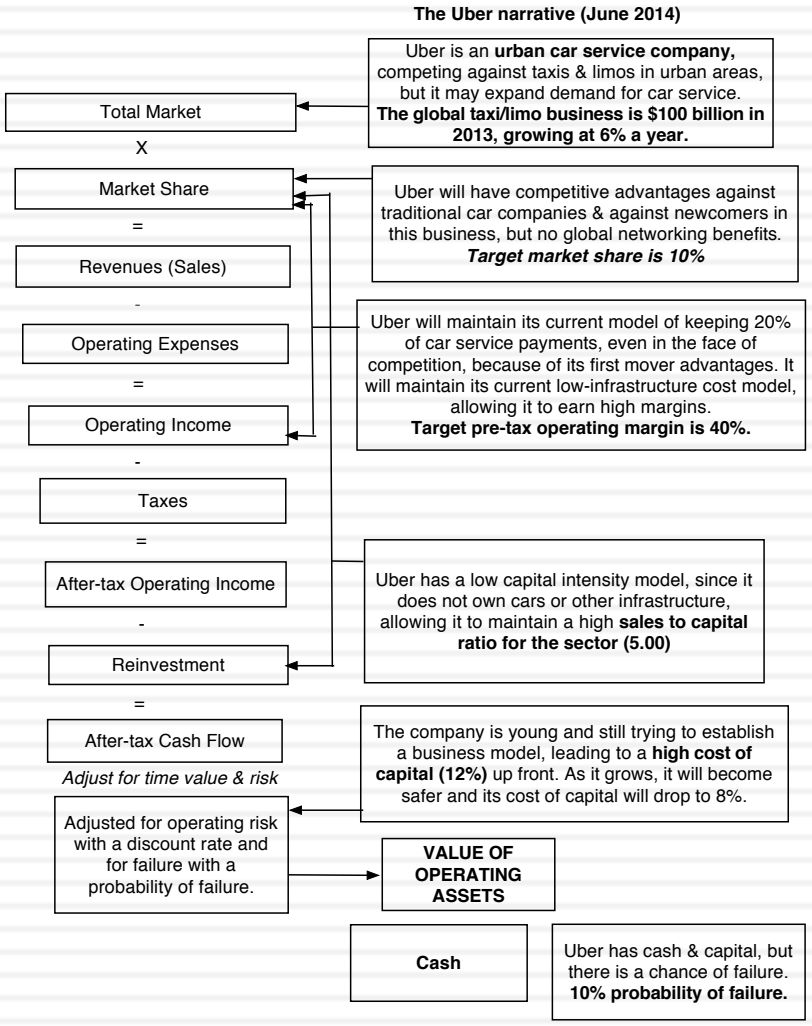
The Checks (?)

Board Member	Designation	Age
Henry Kissinger	Former Secretary of State	92
Bill Perry	Former Secretary of Defense	88
George Schultz	Former Secretary of State	94
Bill Frist	Former Senate Majority Leader	63
Sam Nunn	Former Senator	77
Gary Roughead	Former Navy Admiral	64
James Mattis	Former Marine Corps General	65
Dick Kovocovich	Former CEO of Wells Fargo	72
Riley Bechtel	Former CEO of Bechtel	63
William Foege	Epidemologist	79
Elizabeth Holmes	Founder & CEO, Theranos	31
Sunny Balwani	President & COO, Theranos	NA

+ Money



Step 3: Connect your narrative to key drivers of value



Step 4: Value the company (Uber)

Uber: Intrinsic valuation - June 8, 2014 (in US $)

Stable Growth (after year 10)
Expected growth rate = 2.50%
Cost of capital = 8%
Return on capital= 25%
Reinvestment Rate= 2.5%/25% = 10%

Terminal Value$_{10}$= 793/(.08-025) = $14,418

Term yr
EBIT (1-t) $881
- Reinv 88
FCFF $793

Global taxi market is $100 billlion currently, expected to grow 6% a year for next ten years.

Uber will keep 20% of the gross cab receipts as its revenues

Uber's market share of this market will increase to 10% over the next 10 years.

Uber's operating expenses will amount to 60% of its revenues. (Operating margin=40%)

Uber will pay a tax rate of 30% on its income, increasing to 40% over the next 10 years

Uber will generate $5 in incremental revenues for every dollar of incremental capital.

	1	2	3	4	5	6	7	8	9	10
Overall market	$106,000	$112,360	$119,102	$126,248	$133,823	$141,852	$150,363	$159,385	$168,948	$179,085
Share of market (gross)	3.63%	5.22%	6.41%	7.31%	7.98%	8.49%	8.87%	9.15%	9.36%	10.00%
Revenues as percent of gross	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Annual Revenue	$769	$1,173	$1,528	$1,846	$2,137	$2,408	$2,666	$2,916	$3,163	$3,582
Operating margin	7.00%	10.67%	14.33%	18.00%	21.67%	25.33%	29.00%	32.67%	36.33%	40.00%
Operating Income	$54	$125	$219	$332	$463	$610	$773	$953	$1,149	$1,433
Effective tax rate	31%	32%	33%	34%	35%	36%	37%	38%	39%	40%
- Taxes	$17	$40	$72	$113	$162	$220	$286	$362	$448	$573
After-tax operating income	$37	$85	$147	$219	$301	$390	$487	$591	$701	$860
Sales/Capital Ratio	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
- Reinvestment	$94	$81	$71	$64	$58	$54	$52	$50	$49	$84
Free Cash Flow to the Firm	-$57	$4	$76	$156	$243	$336	$435	$541	$652	$776

Based on the investment of $1.2 billion made by investors, the imputed value for Uber's operating assets, in June 2014 ,was $17 billion.

Value of operating assets = $6,595

Adust for probability of failure (10%)
Expected value = $6,595 (.9) = $5,895

Discount back the cash flows (including terminal value) at the cumulated cost of capital.

Cost of capital for first 5 years = Top decile of US companies = 12%

Cost of capital declines from 12% to 8% from years 6 to 10.

Step 5: Keep the feedback loop open

- When you tell a story about a company (either explicitly or implicitly), it is natural to feel attached to that story and to defend it against all attacks. Nothing can destroy an investor more than hubris.
- Being open to other views about a company is not easy, but here are some suggestions that may help:
  - Face up to the uncertainty in your own estimates of value.
  - Present the valuation to people who don't think like you do.
  - Create a process where people who disagree with you the most have a say.
  - Provide a structure where the criticisms can be specific and pointed, rather than general.

The Gurley Pushback

1. Not just car service company.: Uber is a car company, not just a car service company, and there may be a day when consumers will subscribe to a Uber service, rather than own their own cars. It could also expand into logistics, i.e., moving and transportation businesses.
2. Not just urban: Uber can create new demands for car service in parts of the country where taxis are not used (suburbia, small towns).
3. Global networking benefits: By linking with technology and credit card companies, Uber can have global networking benefits.

Valuing Bill Gurley's Uber narrative

	Uber (Gurley)	*Uber (Gurley Mod)*	*Uber (Damodaran)*
Narrative	Uber will expand the car service market substantially, bringing in mass transit users & non-users from the suburbs into the market, and use its networking advantage to gain a dominant market share, while maintaining its revenue slice at 20%.	Uber will expand the car service market substantially, bringing in mass transit users & non-users from the suburbs into the market, and use its networking advantage to gain a dominant market share, while cutting prices and margins (to 10%).	Uber will expand the car service market moderately, primarily in urban environments, and use its competitive advantages to get a significant but not dominant market share and maintain its revenue slice at 20%.
Total Market	$300 billion, growing at 3% a year	$300 billion, growing at 3% a year	$100 billion, growing at 6% a year
Market Share	40%	40%	10%
Uber's revenue slice	20%	10%	20%
Value for Uber	$53.4 billion + Option value of entering car ownership market ($10 billion+)	$28.7 billion + Option value of entering car ownership market ($6 billion+)	$5.9 billion + Option value of entering car ownership market ($2-3 billion)

Different narratives, Different Numbers

Total Market	*Growth Effect*	*Network Effect*	*Competitive Advantages*	*Value of Uber*
A4. Mobility Services	B4. Double market size	C5. Strong global network effects	D4. Strong & Sustainable	$90,457
A3. Logistics	B4. Double market size	C5. Strong global network effects	D4. Strong & Sustainable	$65,158
A4. Mobility Services	B3. Increase market by 50%	C3. Strong local network effects	D3. Semi-strong	$52,346
A2. All car service	B4. Double market size	C5. Strong global network effects	D4. Strong & Sustainable	$47,764
A1. Urban car service	B4. Double market size	C5. Strong global network effects	D4. Strong & Sustainable	$31,952
A3. Logistics	B3. Increase market by 50%	C3. Strong local network effects	D3. Semi-strong	$14,321
A1. Urban car service	B3. Increase market by 50%	C3. Strong local network effects	D3. Semi-strong	$7,127
A2. All car service	B3. Increase market by 50%	C3. Strong local network effects	D3. Semi-strong	$4,764
A4. Mobility Services	B1. None	C1. No network effects	D1. None	$1,888
A3. Logistics	B1. None	C1. No network effects	D1. None	$1,417
A2. All car service	B1. None	C1. No network effects	D1. None	$1,094
A1. Urban car service	B1. None	C1. No network effects	D1. None	$799

The Real World Intrudes: Be ready to modify narrative as events unfold

Narrative Break/End	Narrative Shift	Narrative Change (Expansion or Contraction)
Events, external (legal, political or economic) or internal (management, competitive, default), that can cause the narrative to break or end.	Improvement or deterioration in initial business model, changing market size, market share and/or profitability.	Unexpected entry/success in a new market or unexpected exit/failure in an existing market.
Your valuation estimates (cash flows, risk, growth & value) are no longer operative	Your valuation estimates will have to be modified to reflect the new data about the company.	Valuation estimates have to be redone with new overall market potential and characteristics.
Estimate a probability that it will occur & consequences	Monte Carlo simulations or scenario analysis	Real Options

Uber: Personal Mobility Player?

Uber is primarily a ride sharing company, with ambtions of being a global logistics player. Its revenue growth has been astonishing, though it is starting to slow, but it remains a big money loser, as it searches for a business model that delivers more stickiness. In this story, Uber uses a combination of economies of scale and a more capital intensive business model to create a pathway to profitability. Along the way, it will become a less risky company, though its losses leave it exposed to a 5% chance of failure.

The Assumptions

	Base year	Years 1-5	Years 6-10	After year 10	Story link
Total Market	$400,000	Grow 10.39% a year		Grows 2.75% a year	Global logistics
Gross Market Share	12.45%	6.71%>30%		30%	Global Network benefits
Revenue Share	20.13%	Unchanged		20.13%	Market dominance keeps billing share high.
Operating Margin	-24.39%	-24.39% ->20%		15.00%	Full employee & more regulations
Reinvestment	NA	Sales to capital ratio of 4.00		Reinvestment rate = 7.5%	Low capital investment model
Cost of capital	NA	9.97%	9,97%->8.24%	8.24%	At 75th percentile of US firms
Risk of failure	5% chance of failure, if pricing meltdown leads to capital being cut off				Cash on hand + Capital access

The Cash Flows

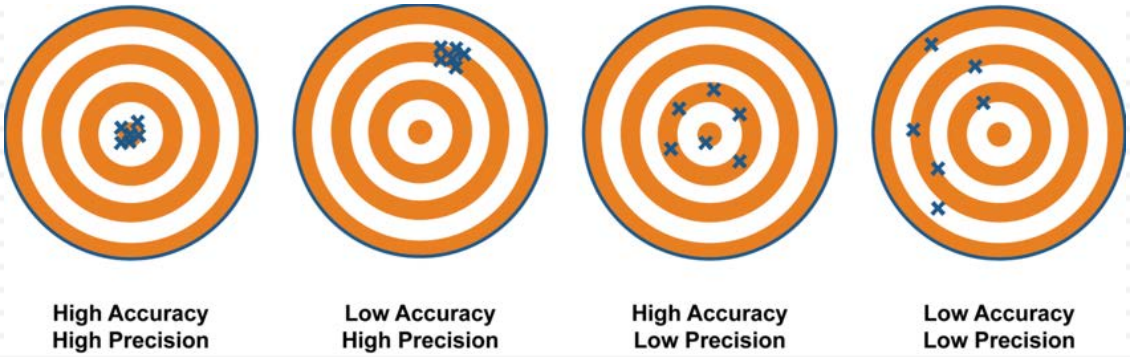
	Total Market	Market Share	Revenues	EBIT (1-t)	Reinvestment	FCFF
1	$ 441,560	14.20%	$ 12,627	$ (2,369)	$ 650	$ (3,019)
2	$ 487,438	15.96%	$ 15,661	$ (2,057)	$ 759	$ (2,816)
3	$ 538,083	17.71%	$ 19,189	$ (1,441)	$ 882	$ (2,323)
4	$ 593,990	19.47%	$ 23,281	$ (438)	$ 1,023	$ (1,461)
5	$ 655,705	21.22%	$ 28,017	$ 1,050	$ 1,184	$ (134)
6	$ 723,833	22.98%	$ 33,485	$ 3,139	$ 1,367	$ 1,771
7	$ 799,039	24.73%	$ 39,787	$ 5,292	$ 1,576	$ 3,716
8	$ 882,059	26.49%	$ 47,037	$ 5,292	$ 1,813	$ 3,479
9	$ 973,705	28.24%	$ 55,365	$ 6,229	$ 2,082	$ 4,147
10	$1,074,873	30.00%	$ 64,915	$ 7,303	$ 2,387	$ 4,915
Terminal year	$1,101,745	30.00%	$ 66,537	$ 7,485	$ 936	$ 6,550

The Value

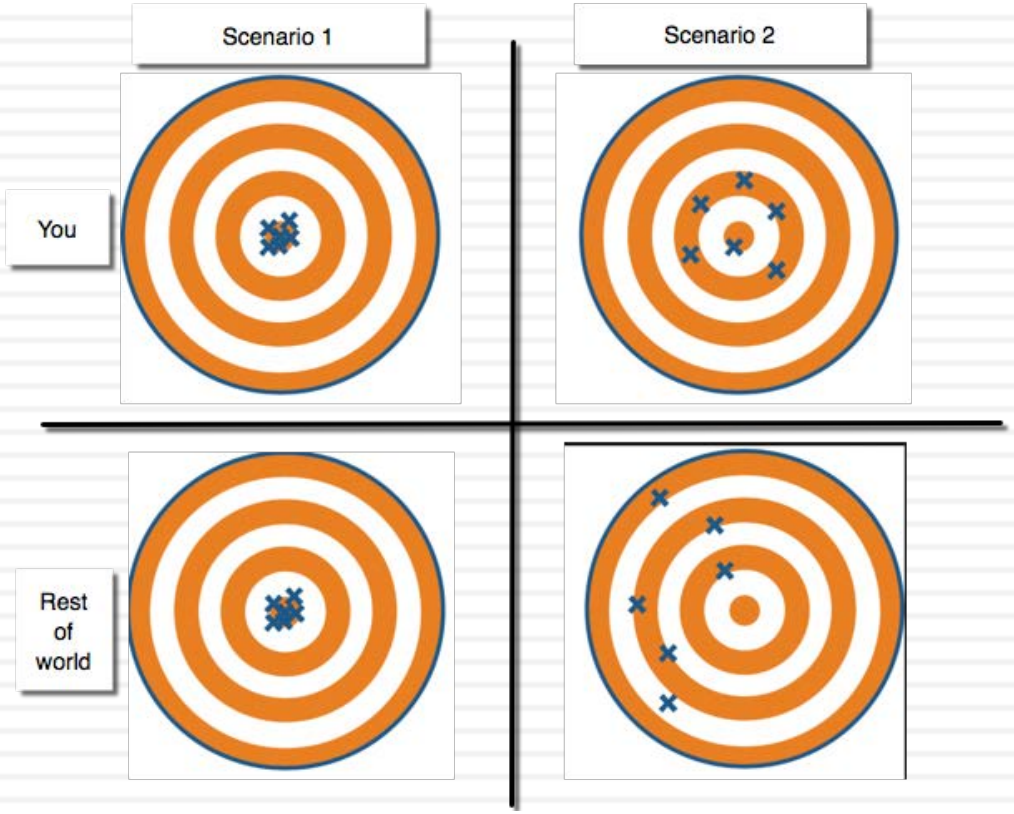
Terminal value	$	114,108
PV(Terminal value)	$	46,258
PV (CF over next 10 years)	$	501
Value of operating assets =	$	46,759
Probability of failure		5%
Value in case of failure	$	-
Adjusted Value for operating assets	$	44,421
+ Cash on hand	$	6,406
+ Cross holdings	$	8,700
+ IPO Proceeds	$	9,000
- Debt	$	6,869
Value of equity	$	52,958
Value per share	$	45.00

IV. Don't mistake precision for accuracy.. And accuracy for payoff..

Better accurate than precise

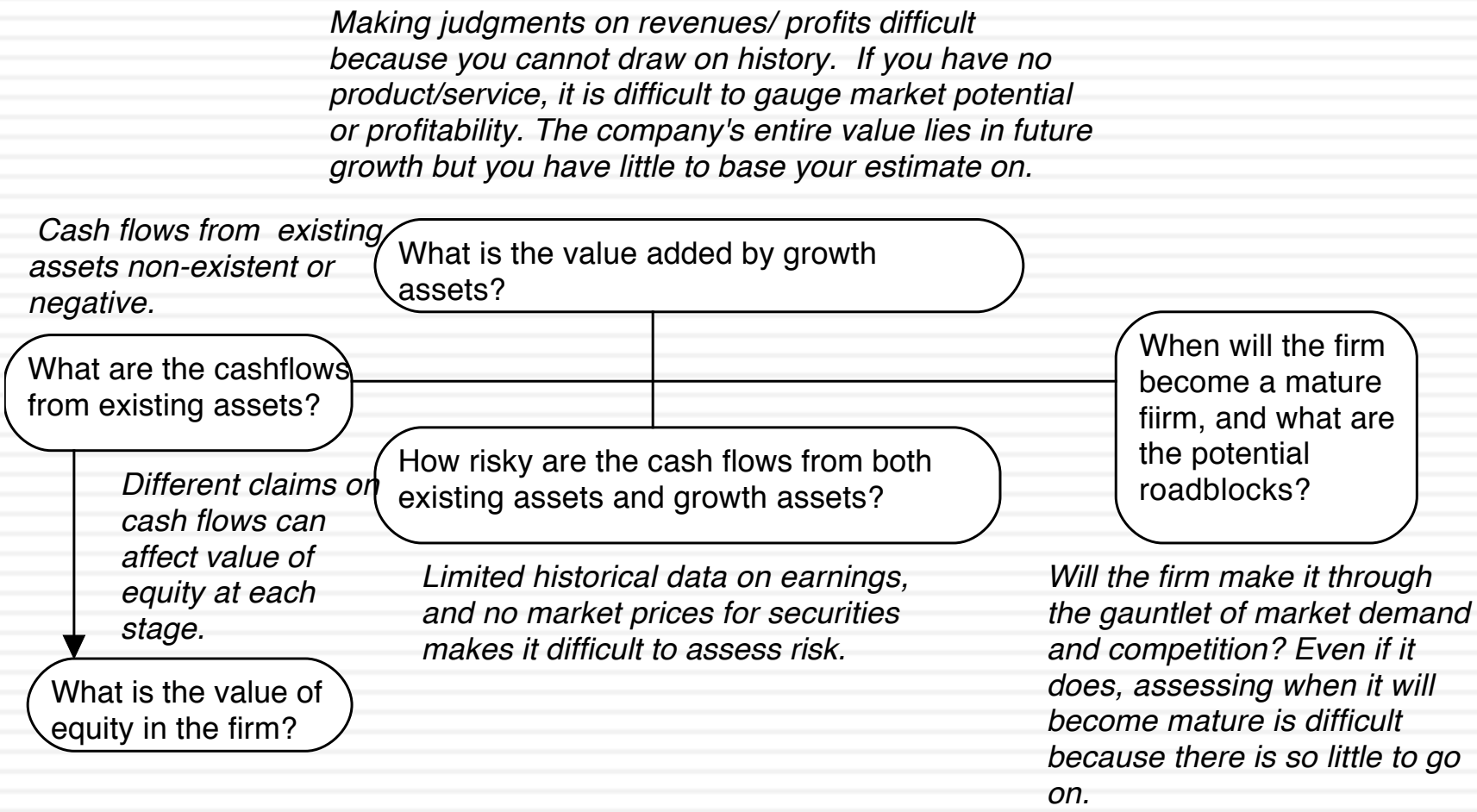


It's all relative



Valuing a start up or a young company is hard to do..

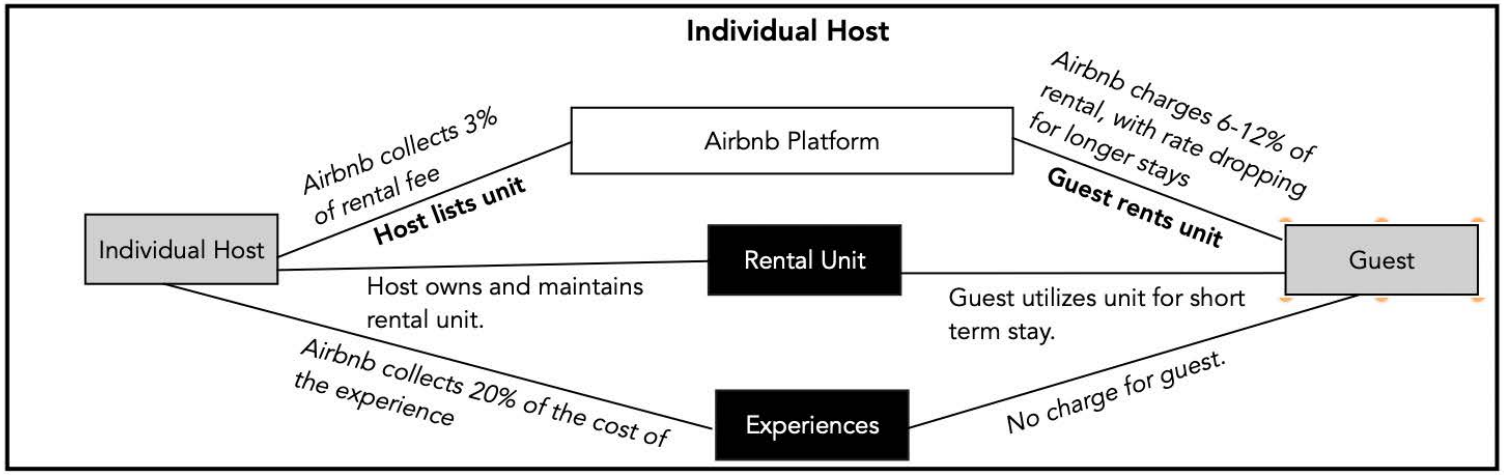
Figure 3: Estimation Issues - Young and Start-up Companies

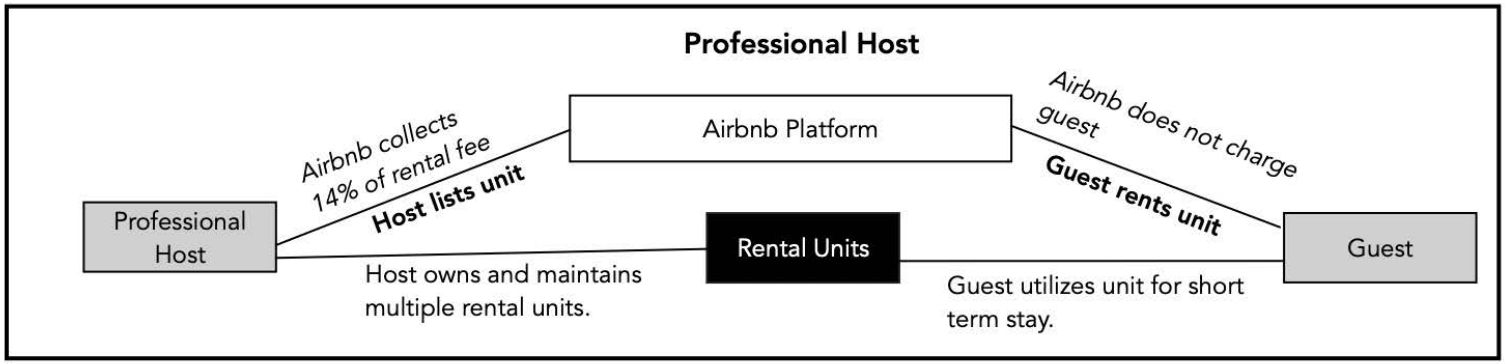


And the dark side will beckon..

- With young start up companies, you will be told that it is "too difficult" or even "impossible" to value these companies, because there is so little history and so much uncertainty in the future.
- Instead, you will be asked to come over to the "dark side", where
  - You will see value metrics that you have never seen before
  - You will hear "macro" stories, justifying value
  - You will be asked to play the momentum game
- While all of this behavior is understandable, none of it makes the uncertainty go away. You have a choice. You can either hide from uncertainty or face up to it.

Airbnb's IPO: The Business Model



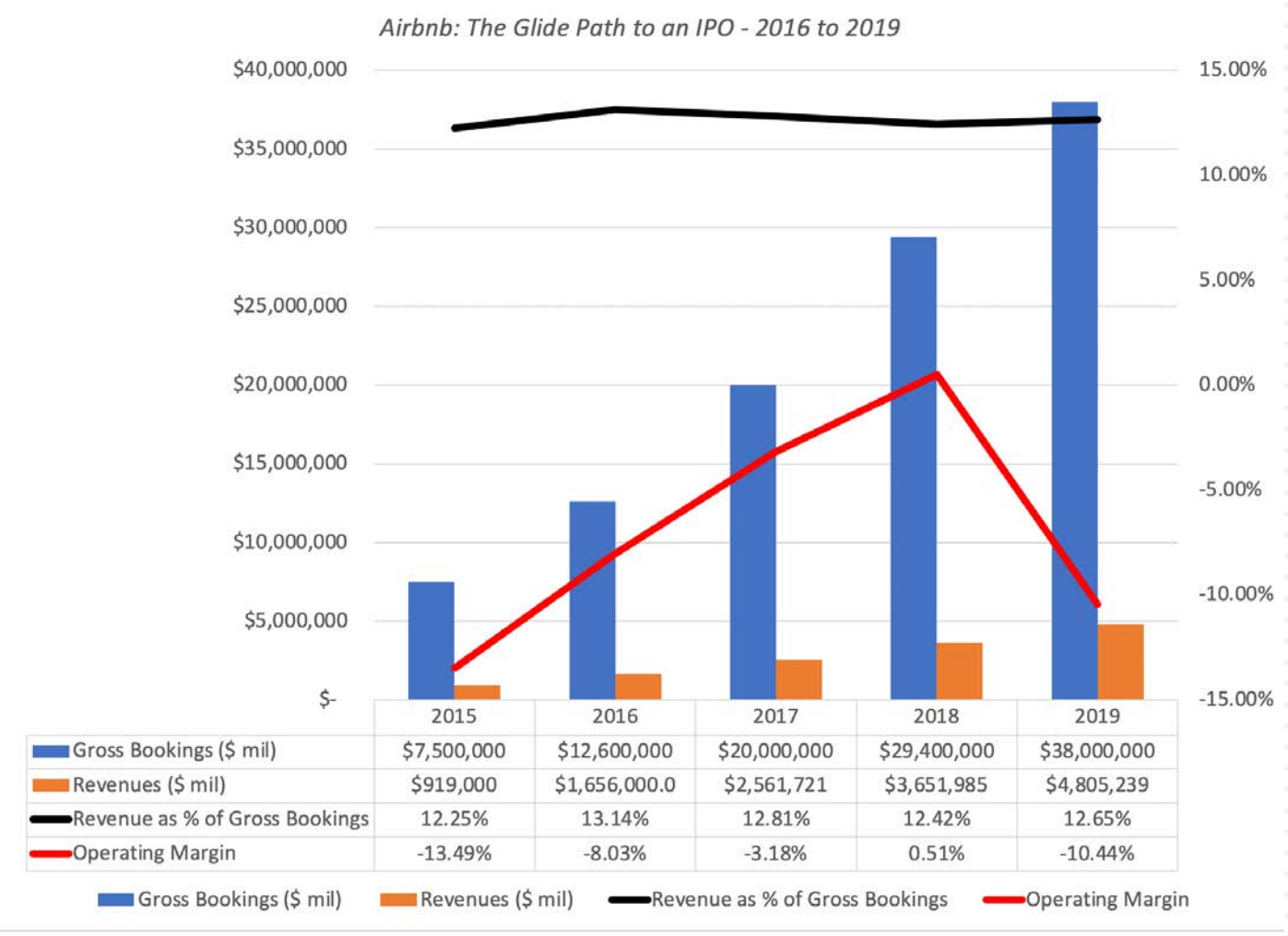


In 2019, there were 4 million hosts on the platform.

In 2019, there were 5.6 million units listed across 10,000 cities in 220 countries.

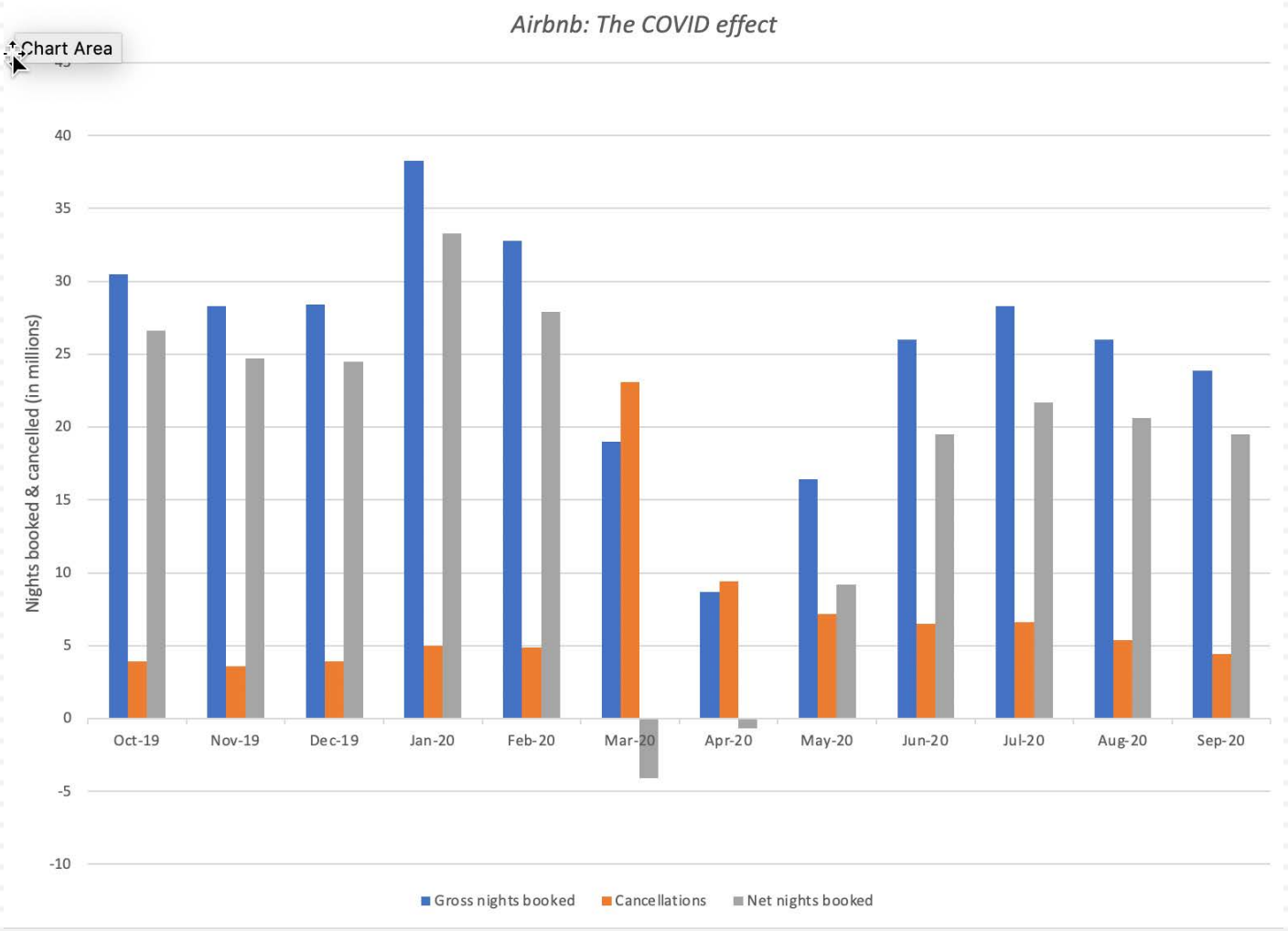
In 2019, there were 54 million travellers on the site, who booked 327 milllion nights.

The Financial Payoffs..

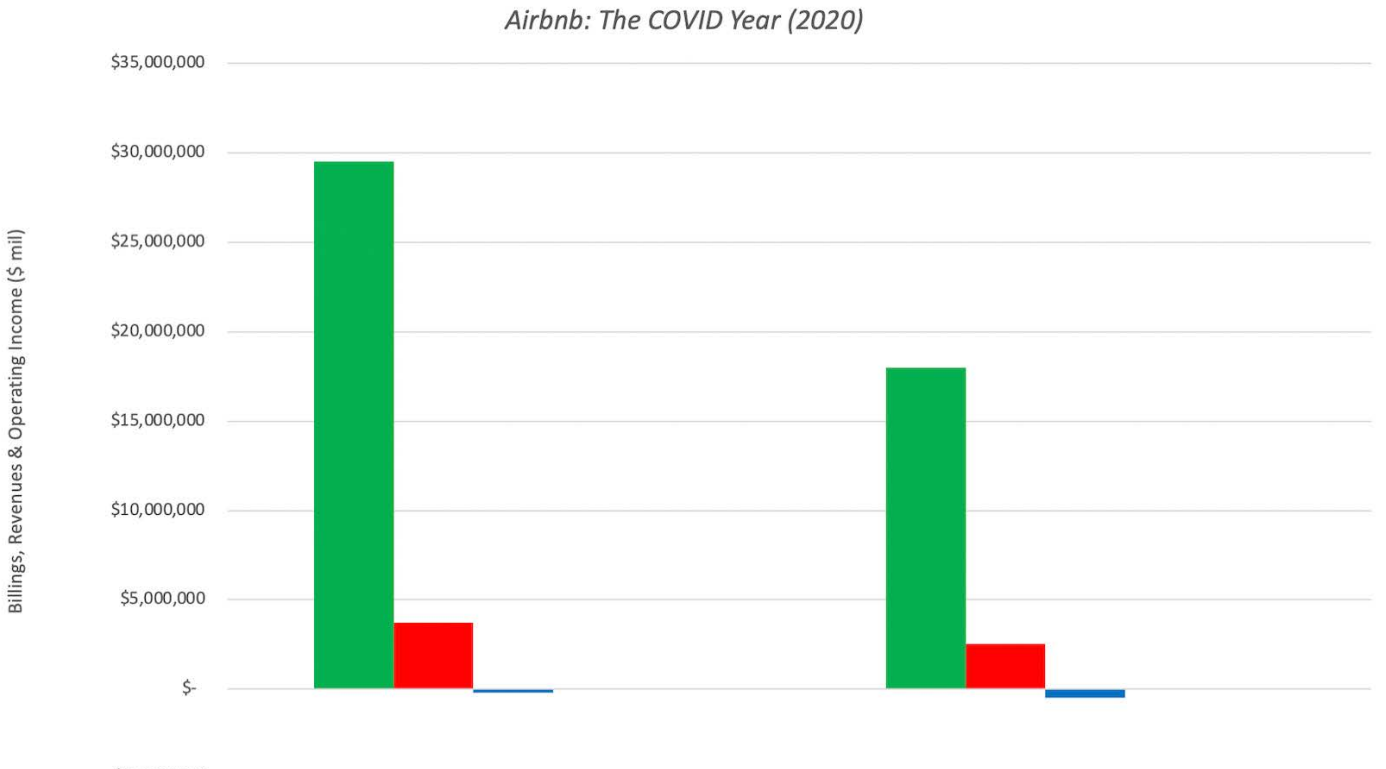


	2015	2016	2017	2018	2019
Gross Bookings ($ mil)	$7,500,000	$12,600,000	$20,000,000	$29,400,000	$38,000,000
Revenues ($ mil)	$919,000	$1,656,000.0	$2,561,721	$3,651,985	$4,805,239
Revenue as % of Gross Bookings	12.25%	13.14%	12.81%	12.42%	12.65%
Operating Margin	-13.49%	-8.03%	-3.18%	0.51%	-10.44%

The COVID Effect.. In nights booked



And in financials..



	9 mths 2019	9 mths 2020
Gross Billings (in $ mil)	$29,508,197	$18,000,000
Revenues (in $ mil)	$3,698,443	$2,518,935
Operating Income ($ mil)	$(173,604)	$(489,967)
Revenues/Gross Billings	12.53%	13.99%
Operating Margin	-4.69%	-19.45%

Prospectus Revelations: On Costs

Airbnb: Cost and Profit Patterns

	2017	2018	2019	LTM
Gross Bookings	$20,000,000	$29,400,000	$38,000,000	$26,491,803
Revenues	$ 2,561,721	$ 3,651,985	$ 4,805,239	$ 3,625,731
COGS	$ 1,043,429	$ 1,473,234	$ 2,011,387	$ 1,722,568
Gross Profit	$ 1,518,292	$ 2,178,751	$ 2,793,852	$ 1,903,163
Product Development	$ 400,749	$ 579,193	$ 976,695	$ 973,576
Sales & Marketing	$ 871,749	$ 1,101,327	$ 1,621,519	$ 982,523
G&A	$ 327,156	$ 479,487	$ 697,181	$ 628,001
Restructuring Charges				$ 136,969
Operating Profit	$ (81,362)	$ 18,744	$ (501,543)	$ (817,906)
Revenues/ Gross Bookings	12.81%	12.42%	12.65%	13.69%
Gross Margin	59.27%	59.66%	58.14%	52.49%
Operating Margin	-3.18%	0.51%	-10.44%	-22.56%
COGS/Revenues	40.73%	40.34%	41.86%	47.51%
Product Development/ Revenues	15.64%	15.86%	20.33%	26.85%
Sales & Marketing/Revenues	34.03%	30.16%	33.74%	27.10%
G&A/ Revenues	12.77%	13.13%	14.51%	17.32%

Revenues as a % of gross billings has been relatively stable between 2017-19. In 2020, it did increase, perhaps because of the new host model.

Barring 2020, the direct operating expenses have been fairly stable at 40-42% of revenues. There is little evidence that scaling up is lowering this number.

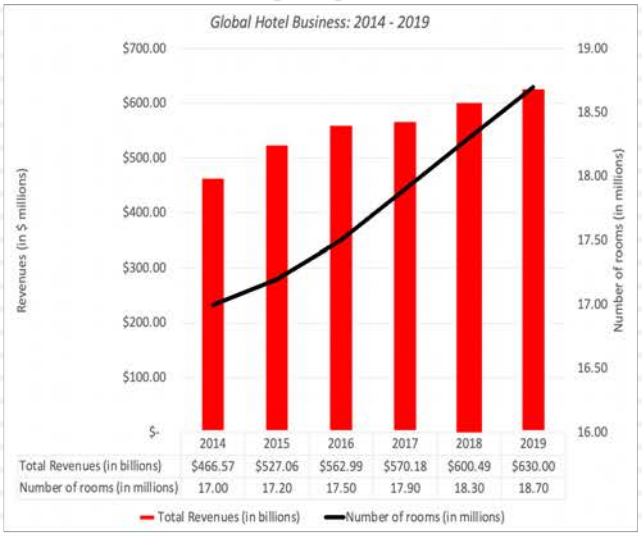
Non-direct operating expenses (G&A, Selling and Product development) are all increasing as revenues grow, suggesting that growth demands are drowning out economies of scale, at least for the moment.

Prospectus Revelations: On Proceeds & Control

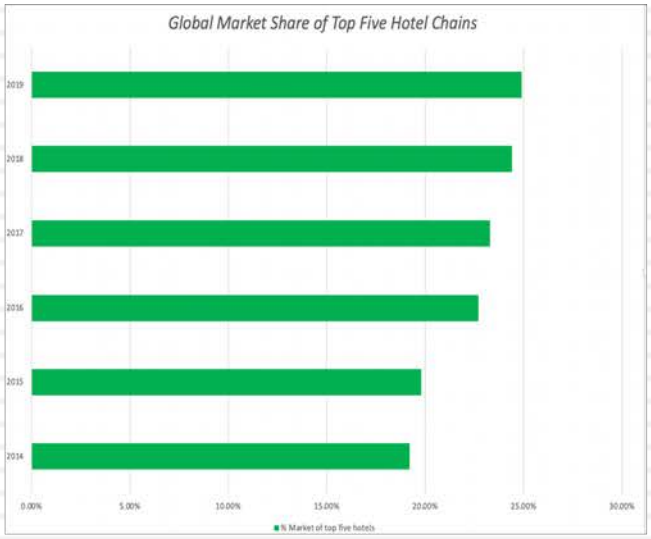
- Use of Proceeds: While the details are still being worked out, it is rumored that Airbnb is looking to raise about $3 billion in proceeds on the offering date, and that while some of the proceeds will be used to retire existing debt, most of it will be held by the company to cover future investment needs.
- Share classes: In keeping with the practices of tech companies that have gone public in recent years, Airbnb has shares with different voting rights: class A shares with one voting right per share, class B shares with 20 voting rights per share, and class C & class H shares with no voting rights per share. Not surprisingly, the class B shares will be held by founders and other insiders, allowing them control of the company, even if they own well below 50% of all shares outstanding.

The Hospitality Business

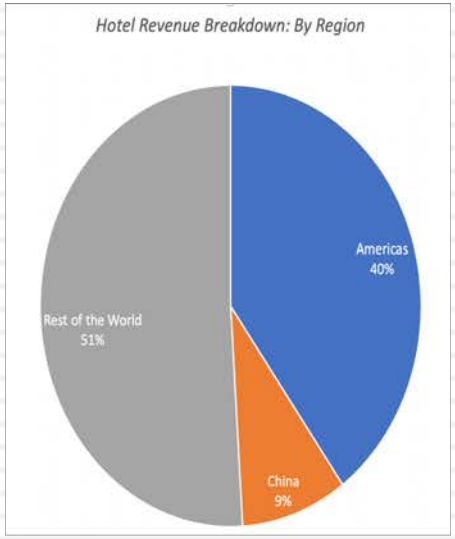
The market is big, but growth has slowed



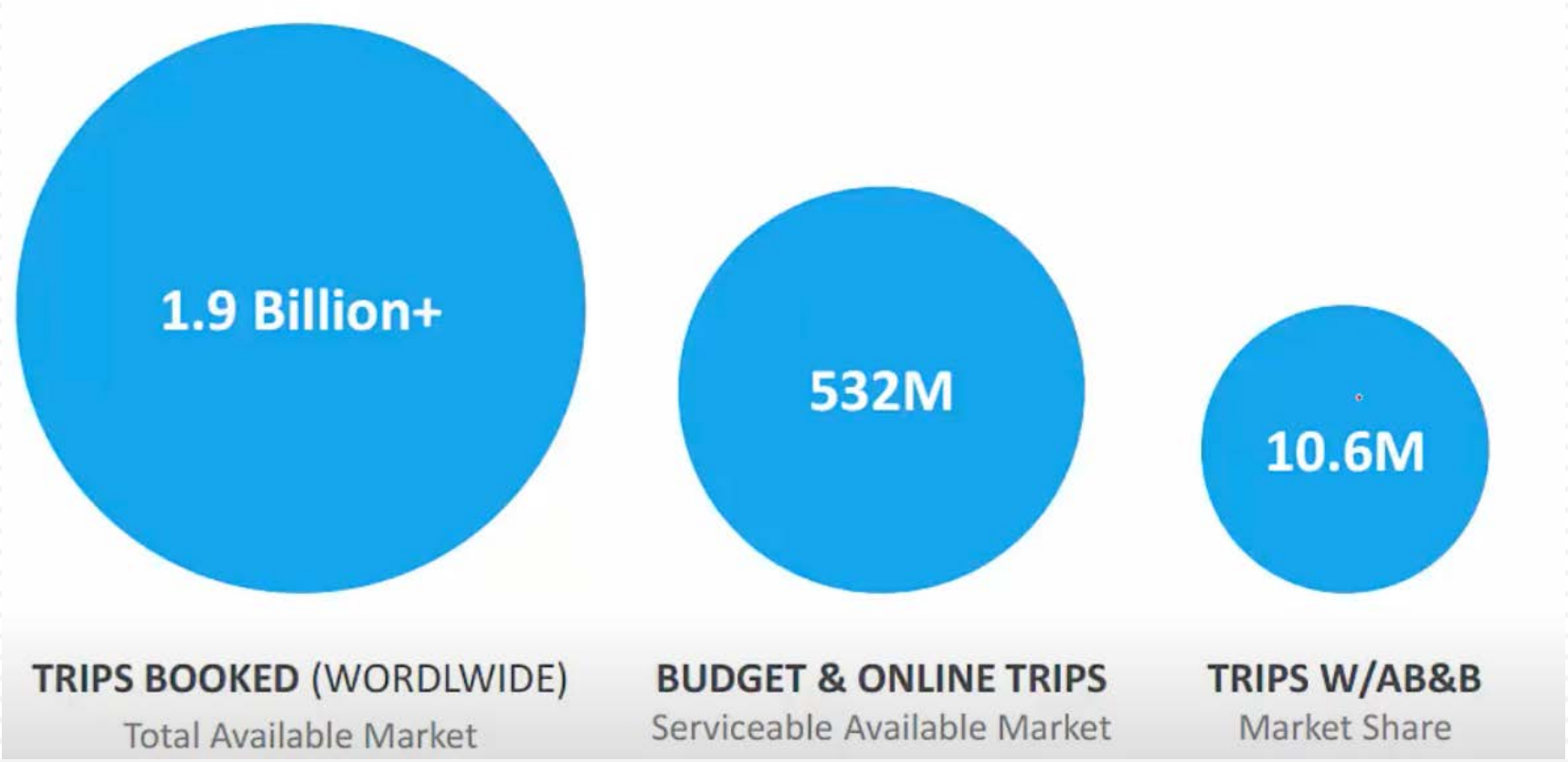
It is concentrated, and getting more so…



The US is the biggest market, but China is growing.



Airbnb's TAM in 2011



Airbnb's TAM in 2020

- In its prospectus, Airbnb has expanded its estimate of market potential to $3.4 trillion, as evidenced in this excerpt from the prospectus:
  - *We have a substantial market opportunity in the growing travel market and experience economy. We estimate our serviceable addressable market ("SAM") today to be $1.5 trillion, including $1.2 trillion for short-term stays and $239 billion for experiences. We estimate our total addressable market ("TAM") to be $3.4 trillion, including $1.8 trillion for short-term stays, $210 billion for long-term stays, and $1.4 trillion for experiences.*
- In my view, Airbnb's targetable market falls somewhere in the middle, clearly higher than just the hotel business of $600 billion, but below Airbnb's upper end estimate of $2 trillion for this business.
- Given how much trouble Airbnb has had in the experiences business, I think Airbnb's estimate of $1.4 trillion for that business is more fictional than even aspirational.

The Players: Hotels

Company Name	Country/Region of Incorporation	Revenues (2019)	Revenues (LTM)	Operating Income (2019)	Operating Income (LTM)	Revenue Growth Rate (2015-2019)	Revenue change in LTM	Operating Margin (2019)	Operating Margin (LTM)
Marriott International, Inc. (NasdaqGS:MAR)	United States	$ 20,972.00	$13,770.00	$ 2,070.00	$ 675.00	14.41%	-42.93%	9.87%	4.90%
Hilton Worldwide Holdings Inc. (NYSE:HLT)	United States	$ 9,452.00	$ 7,248.00	$ 1,565.00	$ 288.00	3.83%	-29.81%	16.56%	3.97%
Huazhu Group Limited (NasdaqGS:HTHT)	Cayman Islands	$ 1,724.92	$ 1,667.38	$ 302.70	$ (50.10)	15.00%	-4.42%	17.55%	-3.00%
InterContinental Hotels Group PLC (LSE:IHG)	United Kingdom	$ 4,627.00	$ 3,595.00	$ 837.00	$ 392.00	13.22%	-28.57%	18.09%	10.90%
Accor SA (ENXTPA:AC)	France	$ 4,543.80	$ 3,421.10	$ 557.70	$ (405.10)	-7.20%	-31.50%	12.27%	-11.84%
Hyatt Hotels Corporation (NYSE:H)	United States	$ 5,020.00	$ 4,772.00	$ 234.00	$ (334.00)	-1.13%	-6.53%	4.66%	-7.00%
Choice Hotels International, Inc. (NYSE:CHH)	United States	$ 1,114.80	$ 826.00	$ 335.10	$ 180.90	8.02%	-32.95%	30.06%	21.90%
Marriott Vacations Worldwide Corporation (NYSE:VAC)	United States	$ 4,355.00	$ 4,262.00	$ 564.00	$ 163.00	19.74%	-2.84%	12.95%	3.82%
Wyndham Hotels & Resorts, Inc. (NYSE:WH)	United States	$ 2,053.00	$ 1,675.00	$ 464.00	$ 301.00	NA	-23.76%	22.60%	17.97%
Minor International Public Company Limited (SET:MINT)	Thailand	$ 4,110.10	$ 2,359.80	$ 351.00	$ (415.90)	28.52%	-52.28%	8.54%	-17.62%
Wyndham Destinations, Inc. (NYSE:WYND)	United States	$ 4,043.00	$ 1,947.00	$ 828.00	$ 198.00	-5.20%	-62.25%	20.48%	10.17%
Shangri-La Asia Limited (SEHK:69)	Bermuda	$ 2,431.20	$ 1,689.80	$ 241.10	$ (133.10)	2.86%	-38.43%	9.92%	-7.88%
BTG Hotels (Group) Co., Ltd. (SHSE:600258)	China	$ 1,193.60	$ 833.00	$ 191.80	$ (48.90)	21.54%	-38.10%	16.07%	-5.87%
TUI AG (XTRA:TUI1)	Germany	$ 21,551.00	$15,999.40	$ 462.00	$(1,191.30)	-0.82%	-32.78%	2.14%	-7.45%
Pandox AB (publ) (OM:PNDX B)	Sweden	$ 594.40	$ 277.90	$ 323.30	$ 210.70	8.62%	-63.71%	54.39%	75.82%
Hilton Grand Vacations Inc. (NYSE:HGV)	United States	$ 1,670.00	$ 835.00	$ 328.00	$ 67.00	6.66%	-60.31%	19.64%	8.02%
Mandarin Oriental International Limited (SGX:M04)	Bermuda	$ 566.50	$ 382.40	$ 71.00	$ (45.80)	-3.58%	-40.79%	12.53%	-11.98%
Extended Stay America, Inc. (NasdaqGS:STAY)	United States	$ 1,201.50	$ 1,052.30	$ 324.50	$ 175.50	-0.20%	-16.20%	27.01%	16.68%
Shanghai Jin Jiang International Hotels (SHSE:900934)	China	$ 2,168.50	$ 1,593.20	$ 226.00	$ (55.70)	35.79%	-33.70%	10.42%	-3.50%
The Indian Hotels Company Limited (BSE:500850)	India	$ 660.10	$ 385.70	$ 99.90	$ (18.10)	-0.27%	-51.15%	15.13%	-4.69%
Resorttrust, Inc. (TSE:4681)	Japan	$ 1,734.40	$ 1,528.60	$ 190.60	$ 125.90	11.76%	-15.50%	10.99%	8.24%
NH Hotel Group, S.A. (BME:NHH)	Spain	$ 1,916.80	$ 1,066.70	$ 303.70	$ (167.00)	4.89%	-54.23%	15.84%	-15.66%
The Hongkong and Shanghai Hotels, Limited (SEHK:45)	Hong Kong	$ 754.10	$ 569.90	$ 102.80	$ 13.40	0.03%	-31.16%	13.63%	2.35%
GreenTree Hospitality Group Ltd. (NYSE:GHG)	Cayman Islands	$ 156.80	$ 135.20	$ 72.10	$ 49.30	NA	-17.93%	45.98%	36.46%
Meliá Hotels International, S.A. (BME:MEL)	Spain	$ 2,008.20	$ 1,025.50	$ 246.50	$ (426.60)	2.10%	-59.18%	12.27%	-41.60%
Kyoritsu Maintenance Co., Ltd. (TSE:9616)	Japan	$ 1,582.90	$ 1,253.50	$ 135.70	$ (22.30)	11.69%	-26.74%	8.57%	-1.78%
Fattal Holdings (1998) Ltd (TASE:FTAL)	Israel	$ 1,546.70	$ 1,095.30	$ 227.20	$ 11.60	35.86%	-36.88%	14.69%	1.06%
Fosun Tourism Group (SEHK:1992)	Cayman Islands	$ 2,489.90	$ 1,812.30	$ 291.90	$ 135.10	NA	-34.53%	11.72%	7.45%
Aggregate		**$106,242.22**	**$77,078.98**	**$11,946.60**	**$ (327.50)**	**5.23%**	**-34.81%**	**11.24%**	-0.42%
Median						**6.66%**	**-33.33%**	**14.16%**	**1.71%**

Margins vary widely, and are higher at fee-based, asset light firms, where another entity owns the real estate, and lower at asset-heavy model, where the hotel company owns the real estate.

Revenues have been growing at a moderate rate (6.66%) from 2014-19, but dropped 33.33% in LTM 2020.

The Players: Booking Companies

	Expedia			Booking.com		
	2019	LTM	% Change (Annualized)	2019	LTM	% Change (Annualized)
Gross Bookings	$107,870.00	$52,470.00	-61.75%	$96,400.00	$48,752.00	-59.71%
Revenues	$ 12,067.00	$ 7,026.00	-51.38%	$15,066.00	$ 8,897.00	-50.46%
Operating Income	$ 961.00	$ (892.00)	NA	$ 5,345.00	$ 1,831.00	-76.03%
Revenues/Gross Bookings	11.19%	13.39%		15.63%	18.25%	
Operating Margin	7.96%	-12.70%		35.48%	20.58%	

Business Mix
Airbnb derives almost of its revenues from acting as a booking intermediary. Expedia & Booking.com derive some of their revenues from bookings (agency services), but also have a *merchant* business (where they buy hotel rooms at discounted rates & sell them at higher prices) and an *advertising* revenue stream.
Expedia: Merchant (40%), Agency (47%), Ads (13%)
Booking.com: Merchant (25%), Agency (68%), Ads (8%)

Status Quo vs Disruption
Expedia & Booking.com derive most of their revenues from traditional hotel companies, whereas Airbnb plays a more disruptive role, allowing home owners to list their housing units for rent.

The COVID effect
With the COVID shutdown, both Expedia & Booking.com saw a sharp drop in revenues in 2020, with the second quarter of 2020 being the worst hit.

The Airbnb Story

- Continued Growth: Airbnb will continue to grow, while finding a pathway to profitability. Airbnb's growth in gross bookings will come not only from disrupting and taking market share from the hotel business, bad news for conventional hotel companies and travel providers who serves them, but also from continued expansion of non-conventional hospitality providers (home and apartment owners).
- Revenue share stable + Improving margins: As it grows, Airbnb's share of those gross bookings is likely to plateau at close to current levels, but its operating margins will continue to improve towards travel booking industry levels, as product development, marketing and G&A costs decrease, not in dollar terms, but as a percent of revenues.
- Experiences business is tangential: While Airbnb is enthusiastic about the experiences business, it is likely to remain a tangential business, contributing only marginally to revenues and profitability.
- Low Risk, for a young company: Since Airbnb has a light debt load and is closer to profitability than most of the sharing-economy companies that have gone public in recent years

Airbnb						Nov-20

The Story

Airbnb has brought the sharing economy to housing, connecting home owners (hosts) who own units or houses that they want to rent with renters (guests) online, collecting a percentage of the transaction revenues from both sides of the transaction. Its low capital intensity model and extended reach has allowed it to expand not only to expand to almost every part of the world (220 countries) but also provide an unmatched range of offerings. The growth in gross bookings has started to slow down, as the company gets bigger, and the COVID shut downs made 2020 a regressive year. That said, as its competitors in the hotel business have been damaged far more by the crisis, Airbnb will be able to recover quickly from the crisis, and continue on its growth path. Economies of scale will allow for only mild improvements in revenues as a % of gross billings, but the brokerage-based business will generate high margins, in steady state, and require relatively little reinvestment.

The Assumptions

	Base year	In 2021	Years 2-5	Years 6-10	After year 10	Link to story
Gross Bookings & Growth Rate	$ 26,491,803.00	40.00%	25.00% →		2.00%	Growth continues, as hotels scale back growth plans after COVID shock.
Revenues as % of Gross Bookings	13.69%	12.65% →			14.00%	Mild economies of scale allow slight increase in percent over time
Operating margin (b)	-13.69%	-10.0% →			25.00%	Higher margins than the hotel business, but lower than ad driven businesses.
Tax rate	25.00%	0.00% →			25.00%	Global/US marginal tax rate, after NOLs are used up.
Reinvestment (c)		Sales to Capital =		2.00	20.00%	Low capital intensity business
Return on capital	-25.61%	Marginal ROIC =		65.81%	10.00%	Networking benefits allow for high value growth
Cost of capital (d)			6.50% →	7.12%	7.12%	Cost of capital moves up over time.

The Cash Flows

	Gross Bookings	Revenues	Operating Margin	EBIT (1-t)	Reinvestment	FCFF
1	$ 37,088,524.20	$ 4,691,698	-10.00%	$ (469,170)	$ 532,984	$ (1,002,153)
2	$ 46,360,655.25	$ 5,989,797	-3.00%	$ (179,694)	$ 649,049	$ (828,743)
3	$ 57,950,819.06	$ 7,565,479	0.50%	$ 37,827	$ 787,841	$ (750,014)
4	$ 72,438,523.83	$ 9,554,641	4.00%	$ 382,186	$ 994,581	$ (612,395)
5	$ 90,548,154.79	$ 12,065,542	7.50%	$ 777,799	$ 1,255,450	$ (477,651)
6	$ 109,019,978.36	$ 14,674,089	9.52%	$ 1,047,952	$ 1,304,274	$ (256,322)
7	$ 126,245,134.94	$ 17,163,026	13.39%	$ 1,723,792	$ 1,244,469	$ 479,323
8	$ 140,384,590.06	$ 19,274,804	17.26%	$ 2,495,269	$ 1,055,889	$ 1,439,380
9	$ 149,649,973.00	$ 20,748,969	21.13%	$ 3,288,271	$ 737,082	$ 2,551,189
10	$ 152,642,972.46	$ 21,370,016	25.00%	$ 4,006,878	$ 310,524	$ 3,696,354
Terminal year	$ 155,695,831.91	$ 21,797,416	25.00%	$ 4,087,016	$ 817,403	$ 3,269,612

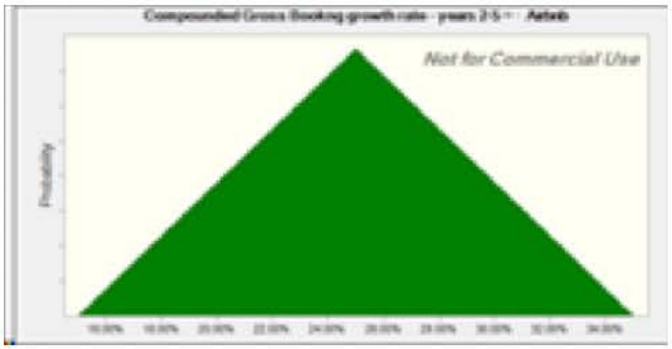
The Value

Terminal value	$ 63,859,619		
PV(Terminal value)	$ 33,434,589		
PV (CF over next 10 years)	$ 1,244,447		
Value of operating assets =	$ 34,679,036		
Adjustment for distress	$ 1,733,952	Probability of failure =	10.00%
- Debt & Minority Interests	$ 2,192,381		
+ IPO Proceeds	$ 3,000,000	Based upon early news stories. May change as final offering details are set.	
+ Cash & Other Non-operating assets	$ 4,495,211		
Value of equity	**$ 38,247,914**		
- Value of equity options	$ 1,736,757		
Number of shares	671,064.00	Filler for the moment. Will update when final prospectus is filed	
Value per share	$ 54.41	Stock was trading at =	*Not yet listed*

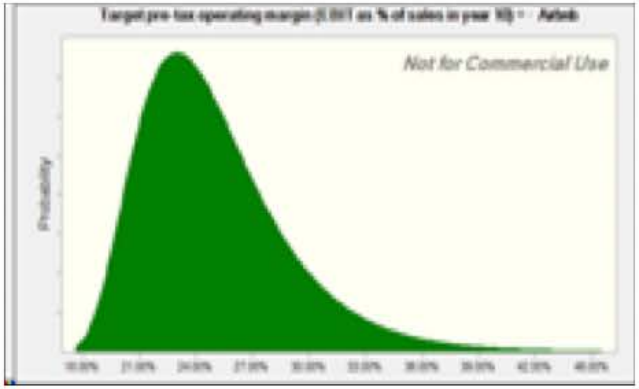
The Key Drivers

Value of Airbnb Equity today (in $ billions)					
	Target Operating Margin (in 2031)				
Gross Billings in 2031 (in $ billions)	*15%*	*20%*	*25%*	*30%*	*35%*
$100.00	$14.44	$19.83	$25.22	$30.61	$35.99
$125.00	$16.86	$23.52	$30.17	$36.82	$43.87
$150.00	$19.42	$27.40	$35.38	$43.34	$51.30
$175.00	$21.78	$30.97	$40.16	$49.35	$58.53
$200.00	$24.22	$34.67	$45.11	$55.54	$65.98

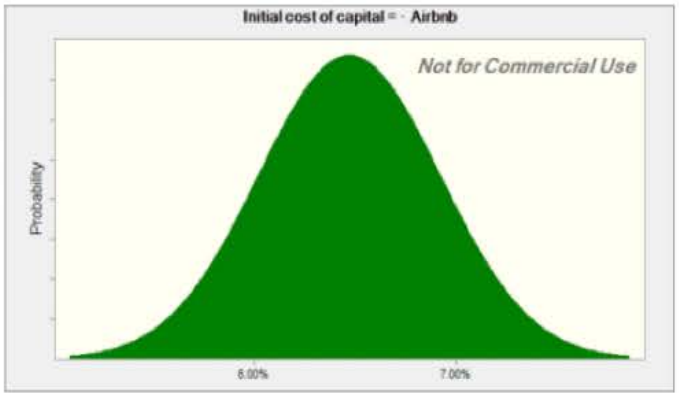
Growth rate in Gross Bookings: 2022-2025
Expected = 25%, Max = 35%, Min = 15%



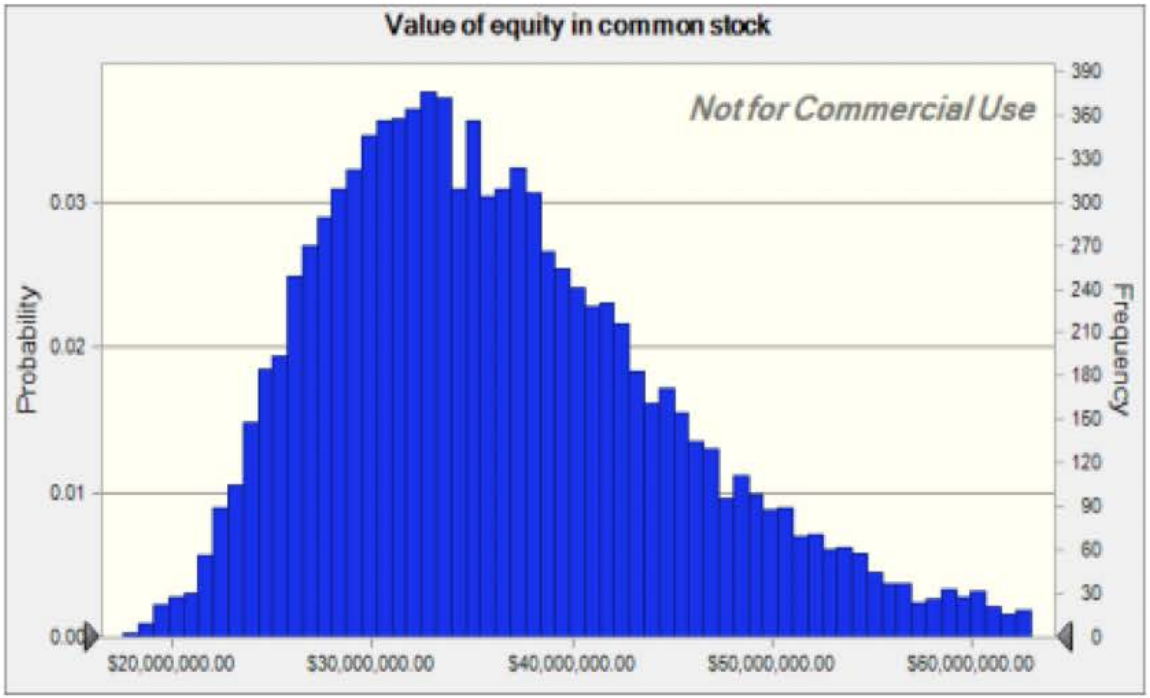
Target Operating Margin in year 10
Expected = 25%, Std Dev = 4%



Cost of Capital (initial)
Expected = 6.50%, Std Dev = 0.45%



Airbnb IPO: Simulation of Equity Value in November 2020



Percentile	*Forecast values*
0%	$17,591,165
10%	$26,150,864
20%	$28,790,133
30%	$30,952,251
40%	$32,981,840
50%	$35,114,898
60%	$37,463,932
70%	$40,181,915
80%	$43,595,272
90%	$49,120,328
100%	$100,382,037

V. Valuation is a craft, and you should never stop learning

- In a science, if you get the inputs right, you should get the output right. The laws of physics and mathematics are universal and there are no exceptions. **Valuation is not a science**.
- In an art, there are elements that can be taught but there is also a magic that you either have or you do not. The essence of an art is that you are either a great artist or you are not. **Valuation is not an art.**
- A craft is a skill that you learn by doing. The more you do it, the better you get at it. **Valuation is a craft.**

Uber's Existing User Value

Growth rate in Operating Expenses
Assumed that 90% of operating expenses are variable, growing at revenue growth rate. Overall expenses grow 10.95%/year

Growth rate in Revenues
Assumed 12% growth in annual revenues/user over next 15 years

User Lifetime
Assumed to be 15 years, with an annual renewal probability of 95%.

	Base Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Membership Survival	1.0000	0.9500	0.9025	0.8574	0.8145	0.7738	0.7351	0.6983	0.6634	0.6302	0.5987	0.5688	0.5404	0.5133	0.4877	0.4633
Gross Billings	$ 547.24	$612.91	$686.46	$768.84	$861.10	$964.43	$1,080.16	$1,209.78	$1,354.95	$1,517.54	$1,699.65	$1,903.61	$2,132.04	$2,387.89	$2,674.43	$2,995.36
Net Revenues	$ 110.16	$123.38	$138.19	$154.77	$173.35	$194.15	$ 217.45	$ 243.54	$ 272.76	$ 305.50	$ 342.16	$ 383.21	$ 429.20	$ 480.70	$ 538.39	$ 602.99
Operating Expenses	$ 65.12	$ 72.25	$ 80.16	$ 88.94	$ 98.67	$109.48	$ 121.47	$ 134.77	$ 149.52	$ 165.90	$ 184.06	$ 204.22	$ 226.58	$ 251.39	$ 278.92	$ 309.46
Operating Profit/user	$ 45.05	$ 51.14	$ 58.03	$ 65.84	$ 74.67	$ 84.67	$ 95.98	$ 108.77	$ 123.24	$ 139.60	$ 158.09	$ 179.00	$ 202.62	$ 229.31	$ 259.47	$ 293.54
Survival adjusted Operating Profit		$ 48.58	$ 52.37	$ 56.45	$ 60.82	$ 65.52	$ 70.55	$ 75.96	$ 81.76	$ 87.98	$ 94.66	$ 101.81	$ 109.49	$ 117.72	$ 126.54	$ 135.99
After-tax Operating Profit/user	$ 33.79	$ 36.44	$ 39.28	$ 42.34	$ 45.62	$ 49.14	$ 52.92	$ 56.97	$ 61.32	$ 65.99	$ 70.99	$ 76.36	$ 82.12	$ 88.29	$ 94.90	$ 101.99
Present Value		$ 33.66	$ 33.53	$ 33.38	$ 33.23	$ 33.07	$ 32.90	$ 32.73	$ 32.55	$ 32.36	$ 32.16	$ 31.96	$ 31.75	$ 31.54	$ 31.32	$ 31.10
Annual Growth Rate (Revenues)	12.00%															
Annual Growth Rate (Op Exp)	10.95%															
Risk-adjusted discount rate	8.24%															
Life of user =	15.00															
Value per existing user =	$ 487.25															
Number of existing users =	91.00															
Value of Existing Users	**$44,339.77**															

Risk Adjusted Discount Rate
Used a 8.24% cost of capital, set at the median cost of capital for US companies, adjusted for inflation difference.

Survival-adjusted PV
PV of after-tax operating income, adjusted for drop out rate over time.

Uber's New User Value

Value Added by New Users at Uber

Base year Value/ New User
Value of User = $487.25
Cost of adding New User = $113.71
Value added by new user = $373.54

User Growth rates
Years 1-5: 12%
Years 6-10: 6%

Cost of capital
Used 9.97%, the 75th percentile of US companies

	Base Year	1	2	3	4	5	6	7	8	9	10
Total Users	91.00	101.92	114.15	127.85	143.19	160.37	170.00	180.20	191.01	202.47	214.62
New Users	0.00	15.47	17.33	19.41	21.73	24.34	17.64	18.70	19.82	21.01	22.27
Value per new user	$373.54	$379.14	$384.83	$390.60	$396.46	$402.40	$408.44	$414.57	$420.78	$427.10	$433.50
Value added by new users		$5,865.27	$6,667.64	$7,579.77	$8,616.68	$9,795.45	$7,205.30	$7,752.18	$8,340.57	$8,973.62	$9,654.72
Terminal Value (new users)											$31,603.73
Present Value		**$ 5,333.52**	**$ 5,513.45**	**$ 5,699.46**	**$ 5,891.74**	**$ 6,090.50**	**$ 4,073.87**	**$ 3,985.70**	**$ 3,899.44**	**$ 3,815.05**	**$ 15,950.37**
Value Added by New Users	**$ 60,253.08**										

Beyond year 10
User growth continues at 2.5% a year

Existing Users	
Inputs	
Net Revenue/User =	$ 110.16
Operating Expense/User=	$ 65.12
Operating Profit/User =	$ 45.05
CAGR in Revenue/User	12.00%
Annual Renewal Rate =	95.00%
User Life =	15
Discount Rate =	8.24%
Output	
Value/User =	$ 487.25
# Existing Users =	91.00
Value of Existing Users =	**$44,339.77**

New Users	
Inputs	
Cost of acquiring user =	$ 113.71
Value of new user =	$ 373.54
Growth rate in net users (1-5)	12.00%
Growth rate in net users (6-10)	6.00%
Discount Rate	9.97%
Output	
# Users in year 10 =	214.62
# Net New Users (10 years)	123.62
Value of New Users =	**$60,253.08**

Corporate Expenses	
Inputs	
Corporate Expenses	$ 2,812.72
CAGR - Next 10 years	7.00%
Discount Rate =	8.24%
Output	
PV of Corporate Expenses	**$(63,216.48)**

Value of Operating A	$41,376.37
+ Cash	$15,407.00
+ Cross Holdings	$ 8,700.00
- Debt	$ 6,869.00
Value of equity	**$58,614.37**
# Shares	1158.30
Value/Share	**$ 50.60**

Existing users will stick with Uber and increase how much they spend on its services, the longer they stay. Operating expneses are mostly fixed, but there will be mild econmies of scale.

Uber will continue to add new users, but at a decreasing pace, with a cost of acquiring a new user staying stable (with the current cost incrteasing at the inflation rate). The new user spending profile will mirror existing users.

Uber's corporate expenses will continue to grow, notwithstanding economies of scale, as the company increases spending moderately on autonomous cars.

VI. Don't mistake price for value!

Drivers of intrinsic value
- Cashflows from existing assets
- Growth in cash flows
- Quality of Growth

Drivers of price
- Market moods & momentum
- Surface stories about fundamentals

Accounting Estimates

Valuation Estimates

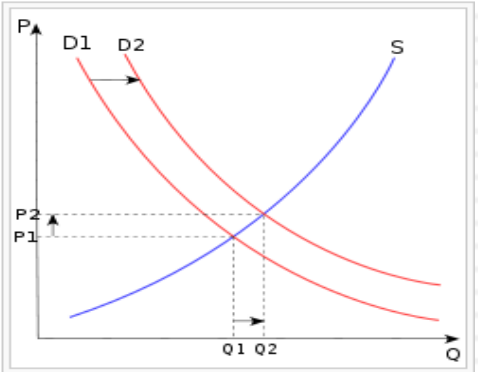
INTRINSIC VALUE

Value

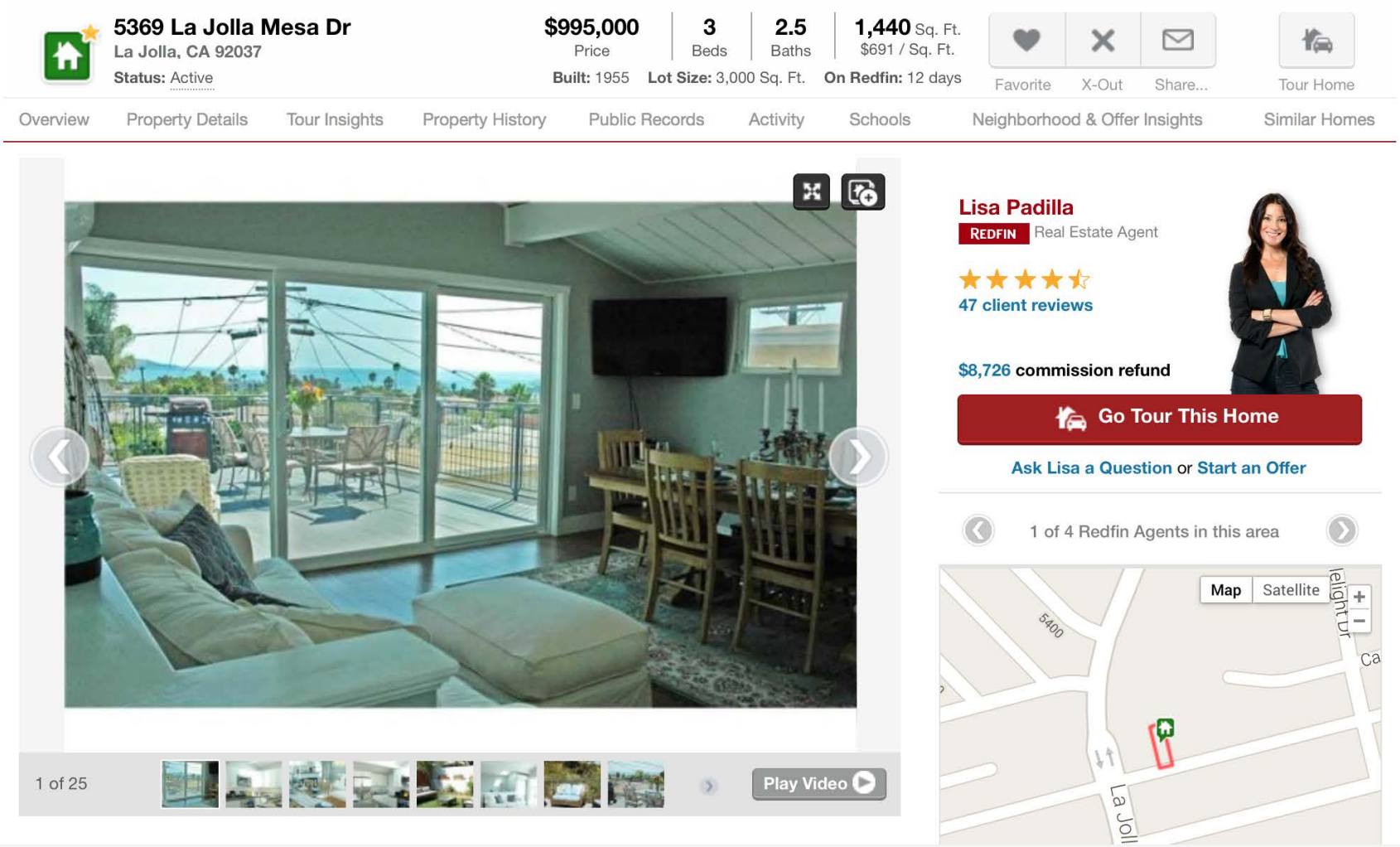
THE GAP
Is there one?
If so, will it close?
If it will close, what will cause it to close?

Price

PRICE



Test 1: Are you pricing or valuing?



Test 2: Are you pricing or valuing?

Europe
Switzerland

Biotechnology
Biotechnology

Reuters	Bloomberg	Exchange	Ticker
BION.S	BION SW	SWX	BION

Price at 12 Aug 2013 (CHF)	124.00
Price Target (CHF)	164.50
52-week range (CHF)	128.40 - 84.90

Strong sector and stock-picking continue

Impressive performance

Over the past two years, BB Biotech shares have roughly tripled, which could tempt investors to take profits. However, this performance has been well backed by a deserved revival of the biotech industry, encouraging fundamental news, M&A, and increased money flow into health care stocks. In addition, BBB returned to index outperformance by modifying its stock-picking approach. Hence, despite excellent performance, the shares still trade at a 23% discount to the net asset value of the portfolio. Hence, the shares are an attractive value vehicle to capture growth opportunities in an attractive sector.

Biotech industry remains attractive

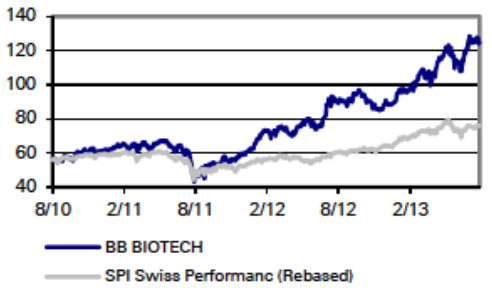
With the re-rating of the pharma sector, investors have also showed increased interest in biotech stocks. Established biotech stocks have delivered encouraging financial results and approvals, while there has also been substantial industry consolidation, which is not surprising in times of "cheap" money and high liquidity. BB Biotech remains an attractive vehicle to capture the future potential of the biotech sector. In addition, investors benefit from a 23% discount to NAV and attractive cash distribution policy of 5% yield p.a. Hence, we reiterate our Buy on BB Biotech shares

Key changes

Target Price 106.50 to 164.50 ↑ 54.5%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-1.4	5.4	37.4

Classifying Investments

1. Cash flow generating assets: Generate cash flows now or are expected to do so in the future. Can be a fixed cash flow claim, a residual claim or a contingent claim.
2. Commodities: Used as raw material to meet another need (energy, food etc.).
3. Currencies: Measure of cash flows, medium of exchange or store of value.
4. Collectibles: May have aesthetic or emotional value but derives its pricing from its scarcity (supply) and the perception of others that it is wanted.

Value versus Price

	To value	To price
Assets	Can be valued based upon expected cashflows, with higher cashflows & lower risk = higher value.	Can be priced against similar assets, after controlling for cash flows and risk.
Commodity	Can be valued, based upon utilitarian demand and supply, but with long lags in both.	Can be priced against its own history (normalized price over time)
Currency	Cannot be valued	Can be priced against other currencies, with greater acceptance & more stable purchasing power = higher price.
Collectible	Cannot be valued	Can be priced based upon scarcity and desirability.

The determinants of price

Mood and Momentum
Price is determined in large part by mood and momentum, which, in turn, are driven by behavioral factors (panic, fear, greed).

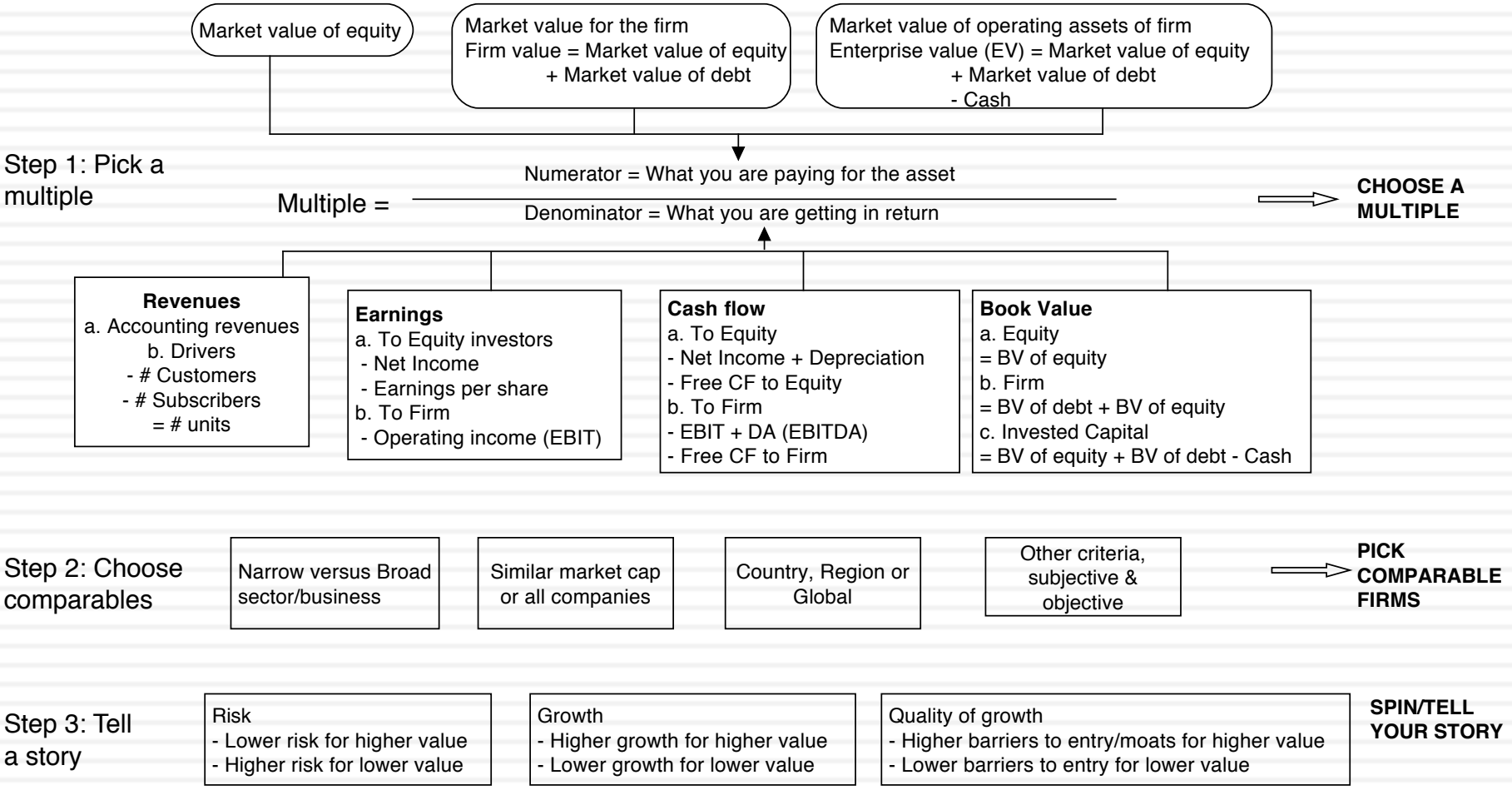
Liquidity & Trading Ease
While the value of an asset may not change much from period to period, liquidity and ease of trading can, and as it does, so will the price.

The Market Price

Incremental information
Since you make money on price changes, not price levels, the focus is on incremental information (news stories, rumors, gossip) and how it measures up, relative to expectations

Group Think
To the extent that pricing is about gauging what other investors will do, the price can be determined by the "herd".

Multiples and Comparable Transactions



The Four Steps to Deconstructing Multiples

- Define the multiple
  - In use, the same multiple can be defined in different ways by different users. When comparing and using multiples, estimated by someone else, it is critical that we understand how the multiples have been estimated
- Describe the multiple
  - Too many people who use a multiple have no idea what its cross sectional distribution is. If you do not know what the cross sectional distribution of a multiple is, it is difficult to look at a number and pass judgment on whether it is too high or low.
- Analyze the multiple
  - It is critical that we understand the fundamentals that drive each multiple, and the nature of the relationship between the multiple and each variable.
- Apply the multiple
  - Defining the comparable universe and controlling for differences is far more difficult in practice than it is in theory.

Henkel: October 2016 (in Euros)

Cash flows from existing assets

	LTM	Last 10 years
Revenues	$ 18,074	Growth rate = 4.20%
Operating margin	15.25%	Average = 12.80%
Sales/Invested Capital	1.33	Average = 1.52
Return on Invested Capital	15.26%	Average = 14.48%
Effective Tax Rate	24.20%	Average = 25.00%

The Payoff from growth

Revenues will grow 4.2% a year for next 5 years, tapering down to 0.1% growth in year 10

Operatng margin (per-tax) will revert to ten-year average of 12.80%

Sales/Invested Capital will stay at ten-year average of 1.52

Maturty and Closure

Stable Growth
g = 0.03%;
Cost of capital = 7%
ROC= 7%;
Reinvestment Rate=g/ROC
=..03%/7%= 0.42%

Terminal Value = 2,292/(.07-..0003) = 33,214

Euro Cashflows

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal Yr
Revenue growth rate		4.20%	4.20%	4.20%	4.20%	4.20%	3.38%	2.56%	1.74%	0.92%	0.10%	0.10%
Revenues	€ 18,074	€ 18,833	€ 19,624	€ 20,448	€ 21,307	€ 22,202	€ 22,952	€ 23,540	€ 23,950	€ 24,170	€ 24,194	€ 24,218
EBIT (Operating) margin	15.25%	15.00%	14.76%	14.51%	14.27%	14.02%	13.78%	13.53%	13.29%	13.04%	12.80%	12.80%
EBIT (Operating income)	€ 2,756	€ 2,826	€ 2,896	€ 2,968	€ 3,040	€ 3,114	€ 3,163	€ 3,186	€ 3,183	€ 3,153	€ 3,097	€ 3,100
Tax rate	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
EBIT(1-t)	€ 2,067	€ 2,119	€ 2,172	€ 2,226	€ 2,280	€ 2,335	€ 2,372	€ 2,390	€ 2,387	€ 2,365	€ 2,323	€ 2,325
- Reinvestment		€ 499	€ 520	€ 542	€ 565	€ 589	€ 494	€ 387	€ 269	€ 145	€ 16	€ 33
FCFF		€ 1,620	€ 1,652	€ 1,684	€ 1,715	€ 1,746	€ 1,878	€ 2,003	€ 2,118	€ 2,220	€ 2,307	€ 2,292

PV(Terminal value)	€ 16,316
PV (CF over next 10 years)	€ 12,741
Value of operating assets =	€ 29,057
- Debt	€ 2,048
- Minority interests	€ 138
+ Cash	€ 2,305
Value of equity	€ 29,176
Number of shares	399.83
Estimated value /share	€ 72.97
Price	€ 118.22
Price as % of value	162.01%

Discount at Euro Cost of Capital (WACC) = 7.78% (.958) + 0.72% (0.042) = 7.48%

The Risk in the Cash flows

On October 25, 2016, Henkel was trading at 118 Euros per share

Cost of Equity 7.78%

Cost of Debt (0.03%+1%)(1-.2965) = 0.72%

Weights E = 95.8% D = 4.2%

Riskfree Rate: Euro Risk free rate = 0.03%

\+

Beta = 1.01

X

Firm's D/E Ratio: 4.4%

Business	Estimated Value	Weight	Unlevered Beta
Chemical (Specialty)	€ 16,276	35.61%	1.03
Household Products	€ 14,486	31.69%	0.96
Cosmetics/Toileries	€ 14,949	32.70%	0.93
Henkel	**€ 45,711**		**0.98**

ERP = 7.71%

Region	Revenues	Weight	ERP
Africa	€ 600	3.34%	11.76%
Asia	€ 3,134	17.45%	7.49%
Central and South America	€ 1,110	6.18%	10.42%
Eastern Europe & Russia	€ 2,695	15.00%	9.65%
Middle East	€ 729	4.06%	7.11%
North America	€ 3,648	20.31%	6.00%
Western Europe	€ 6,045	33.66%	7.16%
Henkel	**€ 17,961**	**100.00%**	**7.71%**

Henkel: A Pricing

Company Name	Exchange:Ticker	PE	PBV	EV/Sales	EV/EBITDA	EV/ Invested Capital
The Procter & Gamble Company	NYSE:PG	21.14	3.81	3.73	13.96	3.20
Colgate-Palmolive Co.	NYSE:CL	45.20	NA	4.45	15.89	NA
Reckitt Benckiser Group plc	LSE:RB.	29.87	6.47	5.31	18.21	5.38
Henkel AG & Co. KGaA	DB:HEN3	22.88	3.38	2.54	13.66	3.46
Kimberly-Clark Corporation	NYSE:KMB	20.46	136.45	2.63	11.53	6.72
Svenska Cellulosa Aktiebolaget SCA	OM:SCA B	31.56	2.52	1.79	10.88	2.04
The Clorox Company	NYSE:CLX	23.73	51.77	3.00	14.42	7.80
Church & Dwight Co. Inc.	NYSE:CHD	26.85	6.06	3.77	15.96	4.53
Spectrum Brands Holdings, Inc.	NYSE:SPB	27.37	4.58	2.33	13.54	2.15
HRG Group, Inc.	NYSE:HRG	NA	5.48	1.87	9.01	1.60
Energizer Holdings, Inc.	NYSE:ENR	23.42	NA	2.16	11.83	NA
PZ Cussons Plc	LSE:PZC	18.03	2.42	1.68	10.88	2.13
WD-40 Company	NasdaqGS:WDF	28.86	10.81	4.02	19.68	9.95
Central Garden & Pet Company	NasdaqGS:CEN	26.86	2.21	0.88	9.63	1.74
McBride plc	LSE:MCB	18.93	4.70	0.60	7.70	2.55
Orchids Paper Products Company	AMEX:TIS	16.66	2.01	2.10	10.52	1.59
Oil-Dri Corp. of America	NYSE:ODC	17.80	2.09	0.87	8.29	2.24
Suominen Oyj	HLSE:SUY1V	11.69	1.43	0.52	4.78	1.32
Accrol Group Holdings Plc	AIM:ACRL	17.74	NA	1.28	9.29	NA
Median		23.15	4.20	2.16	11.53	2.39
Henkel versus Median (Under or Over)		-1.16%	-19.54%	17.57%	18.45%	44.70%

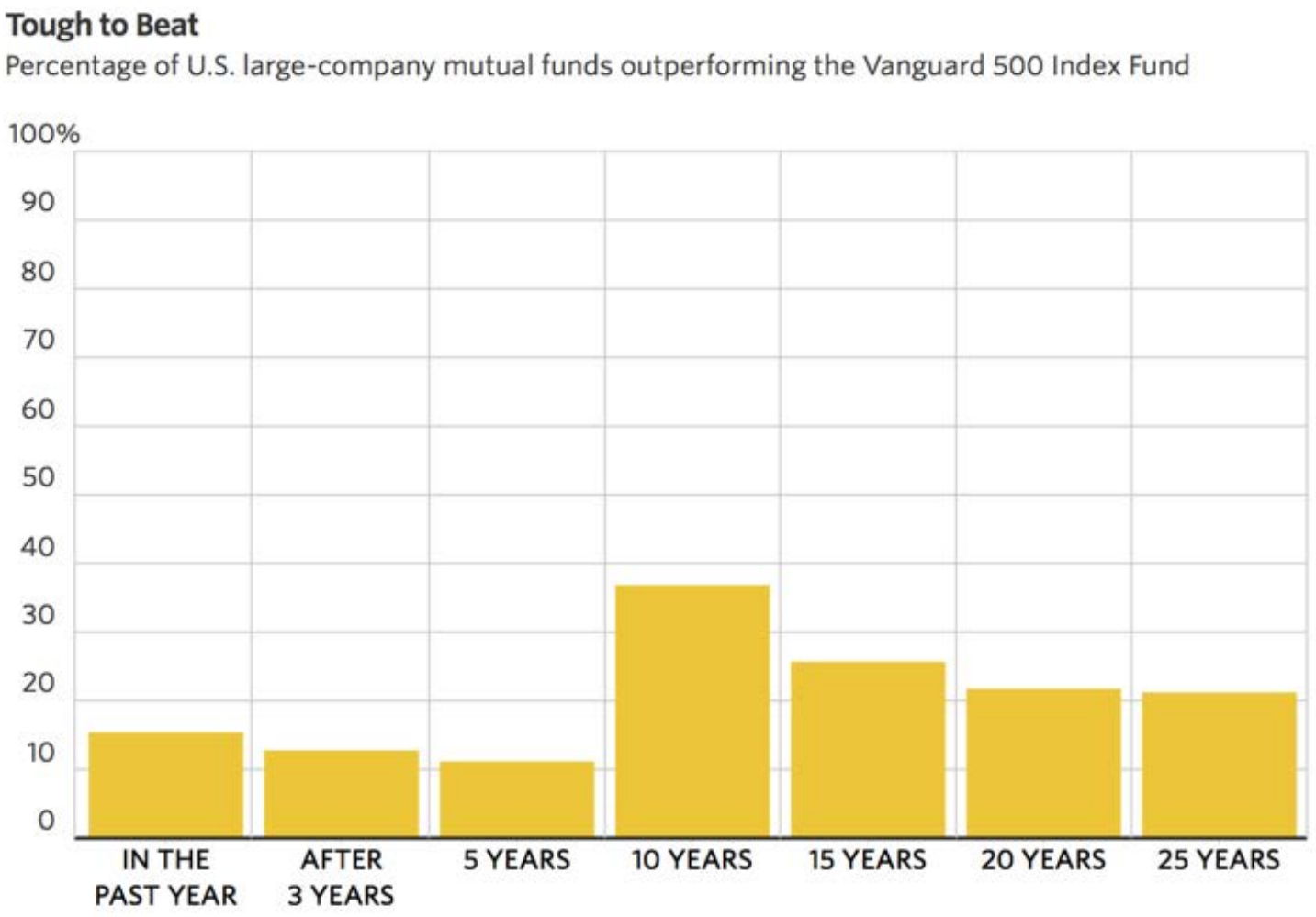
Henkel: Controlling for differences

Company Name	Operating Margin	Net Margin	ROIC	ROE	Net Debt/Market Cap	Expected Growth in EPS	Revenue CAGR (Last 5 years)
The Procter & Gamble Company	22.00%	16.27%	14.23%	18.02%	7.60%	6.30%	-4.57%
Colgate-Palmolive Co.	25.17%	9.04%	53.52%	NA	8.40%	6.93%	-0.75%
Reckitt Benckiser Group plc	27.45%	17.17%	21.34%	21.67%	3.79%	11.00%	0.17%
Henkel AG & Co. KGaA	16.11%	11.15%	16.66%	14.75%	-0.91%	8.96%	3.17%
Kimberly-Clark Corporation	18.92%	10.96%	33.53%	666.89%	16.74%	7.20%	-2.59%
Svenska Cellulosa Aktiebolaget SCA	11.20%	4.62%	7.49%	8.00%	20.54%	8.04%	10.80%
The Clorox Company	18.23%	11.25%	31.23%	218.18%	12.48%	7.05%	1.95%
Church & Dwight Co. Inc.	20.64%	13.12%	16.21%	22.57%	7.15%	9.41%	5.64%
Spectrum Brands Holdings, Inc.	13.58%	5.78%	9.72%	16.74%	46.63%	12.20%	10.10%
HRG Group, Inc.	16.19%	-6.49%	9.37%	-60.24%	179.41%	0.00%	13.00%
Energizer Holdings, Inc.	15.97%	8.07%	45.82%	NA	14.16%	5.77%	NA
PZ Cussons Plc	12.82%	8.24%	13.49%	13.44%	12.05%	0.00%	0.01%
WD-40 Company	18.73%	13.82%	33.50%	37.46%	0.89%	10.00%	2.50%
Central Garden & Pet Company	6.80%	2.54%	8.73%	8.24%	28.87%	11.00%	2.42%
McBride plc	5.03%	2.50%	14.15%	24.81%	28.23%	0.00%	-3.47%
Orchids Paper Products Company	12.85%	9.32%	6.48%	12.09%	35.53%	14.30%	13.60%
Oil-Dri Corp. of America	5.87%	5.18%	14.29%	11.76%	-5.53%	0.00%	2.96%
Suominen Oyj	6.71%	3.69%	11.07%	12.19%	21.64%	-0.20%	19.80%
Accrol Group Holdings Plc	10.52%	4.83%	NA	NA	NA	0.00%	NA
Median	15.97%	8.24%	14.26%	15.75%	13.32%	7.05%	2.50%
Henkel versus Median (Under or Over)	0.84%	35.37%	16.81%	-6.32%	-106.83%	27.09%	26.80%

VII. Investing is an act of faith..

- When investing, we are often told that if you are virtuous (careful in your research, good at valuation, have a long time horizon), you will be rewarded (with high returns).
- That pitch is amplified by anecdotal evidence of righteous ones, i.e., those who have followed the path to success.
- Those who chose not to be virtuous are labeled as "speculators", viewed as shallow and deserving of the fate that awaits them.
- If you have faith in investing, you will be tested.

Active Investing is a loser's game

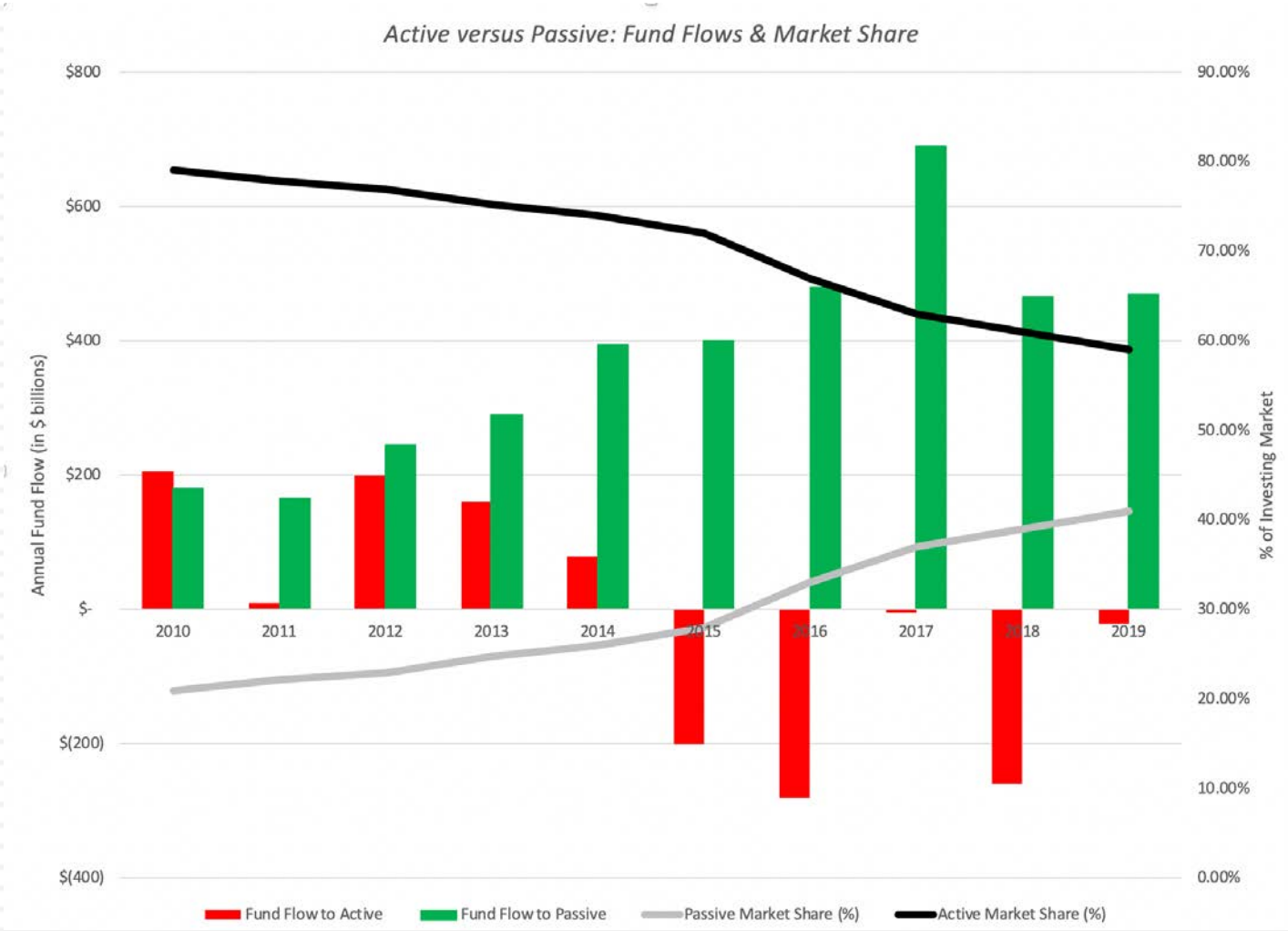


And it stays that way across styles..

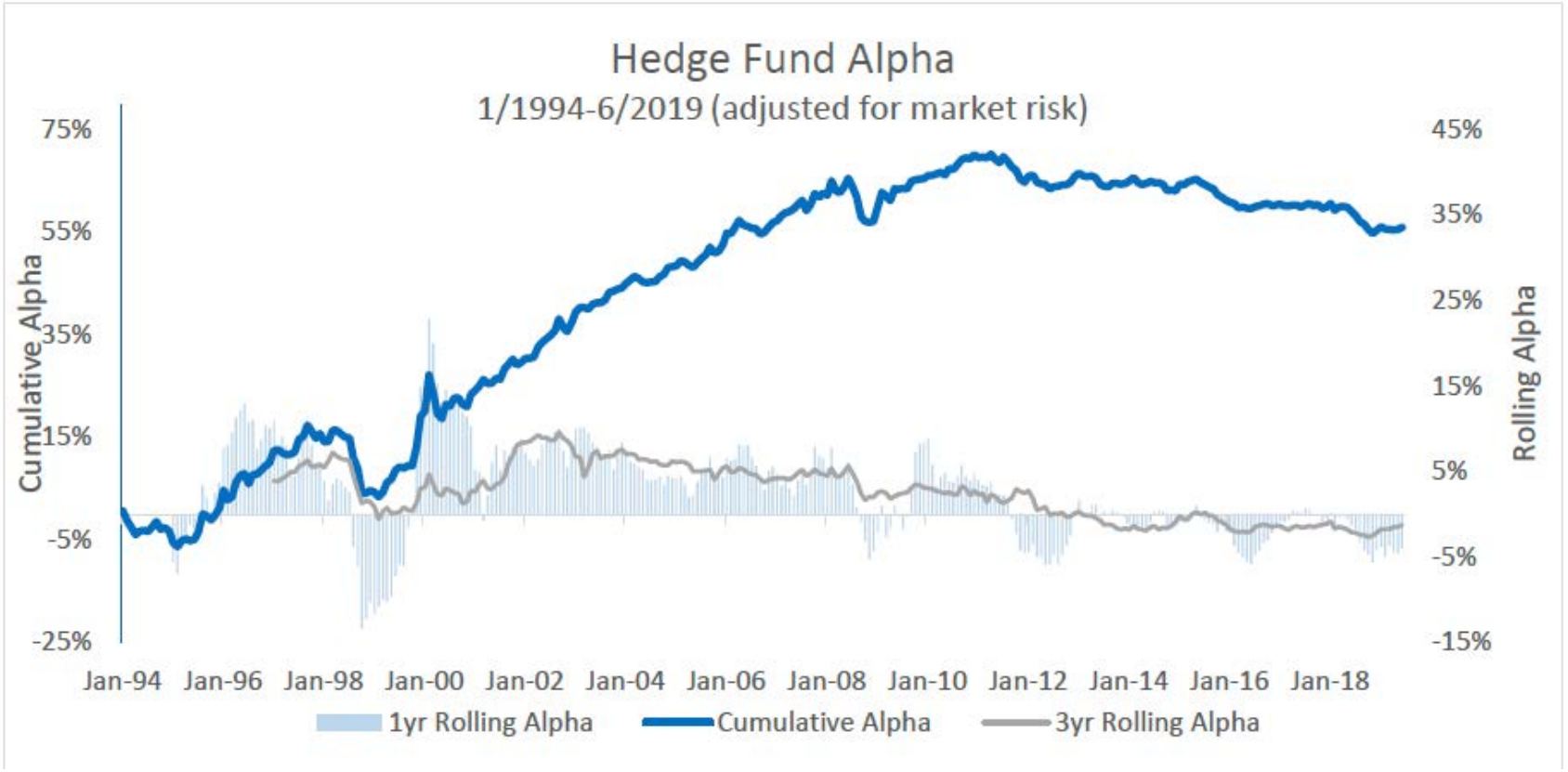
	% of US Mutual Funds that beat their respective indices			
	Value	Growth	Core	All
Large	82.17%	86.54%	88.26%	84.15%
Mid-cap	70.27%	81.48%	76.51%	76.69%
Small	92.31%	91.89%	91.44%	90.13%
All Equity				88.43%
Real Estate				82.64%

S&P computes these percentages for the last year, the last 3 years & the last 10 years. There is not a single period or a single fund grouping where the number is <50%.

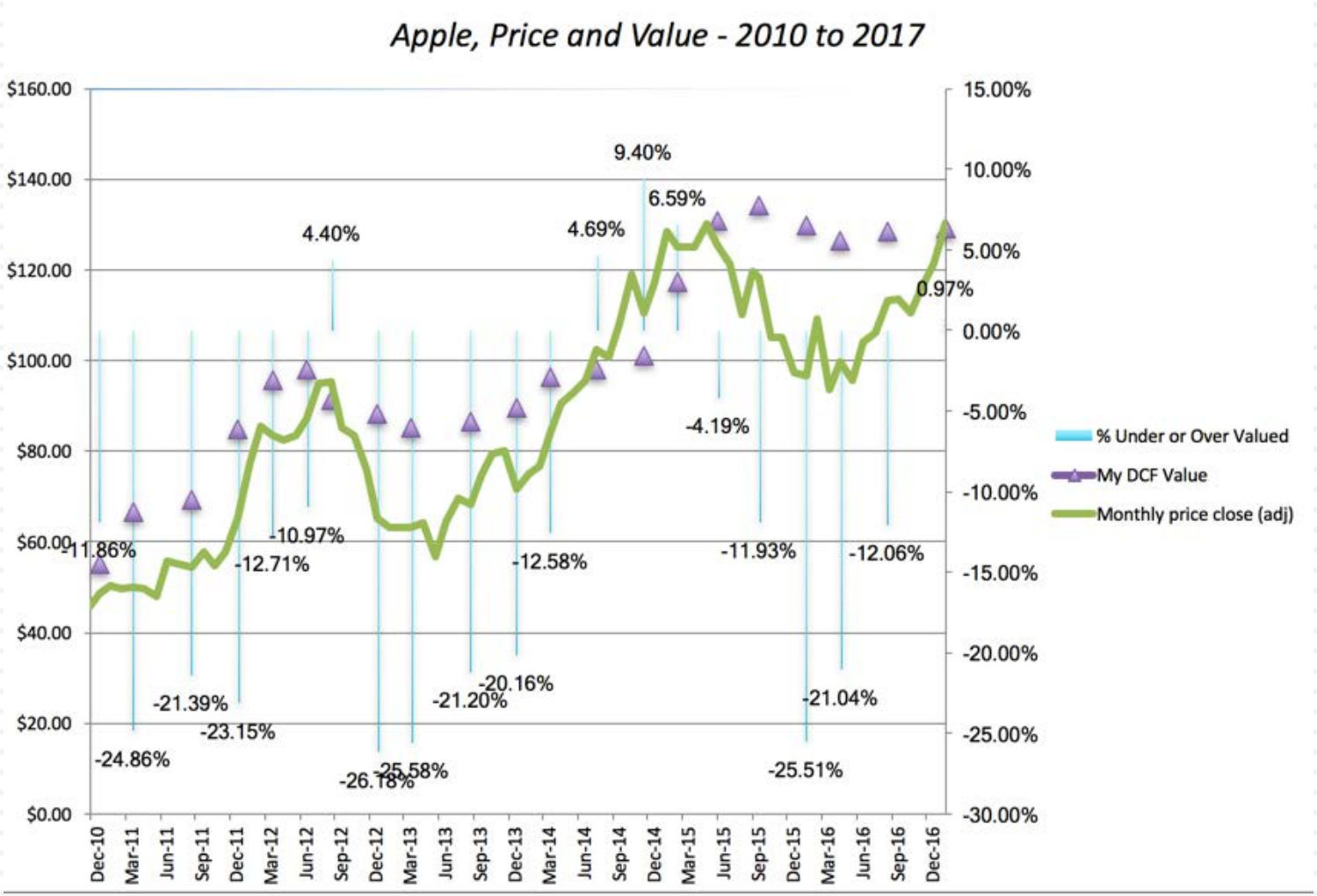
The secret is now out in the open…



The ”smart” money does not stay smart for very long..



Investment Heaven is a promise, not a guarantee..



Follow the yellow brick road..